BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

ORIGINAL

In the Matter of the Application of)
HAWAIIAN ELECTRIC COMPANY, INC.) DOCKET NO. 2008-0083
For Approval of Rate Increases and)
Revised Rate Schedules and Rules.)

TRANSCRIPT OF PROCEEDINGS

VOLUME I

Public Utilities Commission hearing held on Monday, October 26, 2009, commencing at 9:04 a.m., at 465 South King Street, Honolulu, Hawaii, pursuant to Notice.

REPORTED BY: TRISTAN-JOSEPH, CSR NO. 469
Certified Shorthand Reporter

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P R O C E E D I N G S

CHAIRMAN CALIBOSO: Good morning.

I'd like to call this proceeding to order.

This is docket No. 2008-0083, Hawaiian Electric Company's application for rate increases.

My name is Carlito Caliboso, Chairman of the Public Utilities Commission. I am joined by Commissioner Cole and Commissioner Les Kondo. We also have with us the Commission's consultant, Scott Hempling, from the National Regulation Research Institute; or, NRRI, and various staff members. And today right now next to Mr. Hempling is commission staff Carolyn Laborte.

Would the parties note their appearances for the record, perhaps, starting with Hawaiian Electric Company.

MR. WILLIAMS: Good morning, Mr. Chairman, Commissioner Cole, and Commissioner Kondo, Mr. Hempling, Thomas Williams, and Peter Kikuta appearing on behalf of Hawaiian Electric Company. With me is Mr. Robert Alm, who will present the opening statement for Hawaiian Electric.

MR. ITOMURA: Good morning, Chair Caliboso, Commissioner Cole, and Commissioner Kondo. Jon Itomura for the Division of Consumer Advocacy. With me today is Catherine Awakuni, Executive Director; and, witnesses Mike Brosch, Steve Carver and also Joe Herz; and, from our office, Dean Nishina.

CHAIRMAN CALIBOSO: Good morning, everyone.

As you all know, we've --

MR. MCCORMICK: The DOD.

CHAIRMAN CALIBOSO: I'm sorry, what is it?

MR. MCCORMICK: This is Jim McCormick representing the Navy and glad to be here with Dr. Kay Davoodi, who was flown in from Washington, D.C. We're representing the Department of Defense.

CHAIRMAN CALIBOSO: Thank you and welcome and sorry about that.

As you know, we discussed how we're going to organize this hearing at the prehearing conference. We have a prehearing conference order that we issued on October 20th that describes how we're going to conduct this hearing; so, I'm not going to go over all of that.

We did have Hawaiian Electric Company and the Consumer Advocate waive cross-examination on both witnesses from the Department of Defense, Steven Hill and Ralph Smith, so they'll not be appearing. That's by letters dated October 21st, 2009, as well as at the prehearing conference.

The schedule for the hearing is, as I said, described in a prehearing conference in the Exhibit A attached to the prehearing conference order; so, please, refer to that. We will try to stick with that schedule as much as possible, but we will need some -- we may need to have some flexibility in applying that schedule.

We will try to swear the witnesses inasmuch as possible in the beginning; and, as we go from panel to panel, if there are any witnesses who have not been sworn in, we need to swear in those particular witnesses in at that time; so, please, remind me if I miss that.

Are there any questions before we go further?

MR. WILLIAMS: No questions, Mr. Chairman.

We really much appreciate the fact that the Commission has identified the panels and identified the nature of the questions that will be on those panels.

This morning we filed a letter adding several witnesses to panels based on the questions that have been identified. And if there are further questions that come up, we will try to make those adjustments to the panel so that the appropriate person is there to respond to the question.

CHAIRMAN CALIBOSO: All right. Thank you.

Are there any changes to the panels that are going to be taking place today, Panels 2 and 3?

MR. WILLIAMS: On Panel 3, I think, mister -- I don't know whether Mr. Alm and Ms. Sekimura were listed, but they are now listed on Panel 3.

CHAIRMAN CALIBOSO: Okay.

MR. WILLIAMS: They will be as a background however, only if a broader overall question comes up where it will be necessary for them to respond.

CHAIRMAN CALIBOSO: All right. Thank you.

Any other changes to witnesses or additions?

Any objections to Hawaiian Electric Company's changes here?

MR. ITOMURA: The Consumer Advocate has no objections.

MR. MCCORMICK: No objections from the Department of Defense.

CHAIRMAN CALIBOSO: All right. Thank you.

All right. With that, we will start with the opening statements, and we'll do the swearing in right before the first panel.

On a second thought, I'm sorry, just to be safe, let's swear in all the witnesses now. So if you could identify your witnesses and then have them stand, and I'll swear them in right now.

MR. WILLIAMS: Thank you, Mr. Chairman. And can I ask Iris to keep track of which witnesses have been sworn in. Thank you.

All the witnesses should, please, stand and then we'll identify ourselves by walking around the room. All witnesses who are present in the room please stand.

CHAIRMAN CALIBOSO: For Hawaiian Electric.

MR. WILLIAMS: For Hawaiian Electric.

Please, state your name, Mr. Alm.

MR. ALM: Robert Alm.

MR. SEU: Scott Seu.

MR. YOUNG: Robert Young.

MR. GIOVANNI: Dan Giovanni.

MS. UNEMORI: Lynne Unemori.

MS. SEKIMURA: Tayne Sekimura.

MS. CHIOGIOJI: Faye Chiogioji.

MR. SIMMONS: Tom Simmons.

MR. HEE: Alan Hee.

MR. ROOSE: Leon Roose.

MR. YAMAMOTO: Darren Yamamoto.

CHAIRMAN CALIBOSO: Just, please, remain standing.

Mr. McCormick, you don't have any witnesses here. Correct?

MR. MCCORMICK: None for the Department of Defense.

CHAIRMAN CALIBOSO: Okay, thank you.

Mr. Itomura?

MR. ITOMURA: For the Consumer Advocate, we have Mike Brosch, Steve Carver, Joe Herz, and not yet with us is Dave Parcell.

CHAIRMAN CALIBOSO: We'll swear in Mr. Parcell when he makes his appearance.

Do you solemnly swear that the testimony you're about to give will be the truth, the whole truth, and nothing but the truth?

ALL WITNESSES: I do.

CHAIRMAN CALIBOSO: Thank you. You may be seated.

MR. WILLIAMS: Mr. Chairman, just one other matter. Mr. Kikuta and I will basically be dividing up the panel so you won't have to deal with more than one lawyer for a panel.

CHAIRMAN CALIBOSO: I appreciate that.

MR. WILLIAMS: And Mr. Kikuta will basically be the counsel for Panels 2 and 3. I'll be the counsel for Panel 1; although, there's -- I'll probably be sitting here for Panel 3. There are some panels, with the Commission's indulgence, that I won't be present for, if that's permissible.

CHAIRMAN CALIBOSO: That's fine. Thank you.

MR. WILLIAMS: Thank you, Mr. Chairman.

CHAIRMAN CALIBOSO: Anything else before we start with opening statements?

Seeing none, Mr. Alm?

MR. ALM: Thank you. Chair Caliboso, Commissioners Cole and Kondo and Commissioner's staff Mr. Hempling.

I'm Robert Alm, Executive Vice President of Hawaiian Electric Company, and I'll be making our opening statement.

We are here before you in very difficult times. Last Friday, had we wanted to file something with you, we could not have because you were closed as part of the State's furlough process. I spent the day, as did many other parents, trying to find enriching activities for my eighth-grader so she just didn't have a day off from school.

These are unprecedented times for Hawaii. We are struggling economically as we have rarely struggled before, and the sacrifices and stresses run across the board; and, still we are here to ask you to increase the rates that are our customers pay for electricity. We do not do so lightly.

We talk to our customers every day, and they are our number one concern. We know better than most what they go through in the areas of electricity and electric pricing. We, ourselves, are no stranger to these troubled times. The year 2009 will go down as one of the most challenging finance in our Company's history.

The rating agencies and financial markets have expressed significant concern about our Company's health, not only do they look at our rate of turn in comparison to other peer utilities, but they also look at the fact that, you know, as a result of our structure, we have already lost millions of -- ratemaking structure, we have already lost millions of dollars we will never recover.

If you will recall, we initially requested $97 million in rate relief. We settled for slightly less than 80 million and the interim decision gave us 61 million. That's 36 million below what we said it would take to operate the Company.

On a personal level or personnel level, the merit employees are getting no pay increases and all employees have lost the electric discount. We're certainly not suggesting that our loss is equally yours. Only that pain in these times is universal and still we're here to ask for a rate increase.

There are two primary reasons for doing so. First and foremost, is that no one, not the Commission, not the Consumer Advocate, not the Department of Defense, has given us any pass on our reliability mandate.

Quite the contrary, and docket after docket, meeting after meeting, you have reminded us that reliability is job one; and, that is what the overwhelming majority of this case is about. That's what CT-1 is about, that's what O&M is about, that's what our capital budget is about.

And we assume that is why you approved much of the interim, and as the next day shows much of what is left falls in the same category.

In order to do this, it takes not only our people that are in the field to fix and maintain our infrastructure and run our power plants, but our engineers and operators at Ward in downtown who provide them with expertise and the knowledge that is needed to do their job.

And, of course, this same area of the Company is where most of our cost-cutting takes place. We have tried to do so without compromising reliability, but any significant reductions require changing the operation's budget of this Company because that's what most of it covers. In some ways it's like saying, let's cut the State budget but not touch personnel. It couldn't be done, even if you tried.

The second reason we're here before you today has to do with the drive away from fossil fuels.

Last year, we saw our prices for electricity skyrocket as oil reached $147 a barrel. While Hawaii has long had programs on renewable and energy efficiency, this price sent shock waves through our economy; and, though prices went from that high down to a low of $39 this past spring, they are on their way back up again and reached $81 a barrel last week; and, all of this is before carbon is financially burdened through National Greenhouse Gas legislation.

And so we maintain in this rate case the support we need to get Hawaii off oil. It is a daunting task and one that must be undertaken before we find ourselves back at $150 a barrel, as many of us believe we will.

So let us take advantage of this temporarily lower fuel bill at a recessionary driven reduction load to make and execute our policy to reduce fossil fuel use. Accelerated PPAs, the bids, the underlying engineering to look at integrating more renewables, smart grid, fee and tariffs, new financial models like decoupling, the renewable infrastructure program, et cetera, have been on our joint agenda for some time now. We need to continue this work and that will be the other main subject you will hear about in the next few days.

Again, we do understand the burdens our customers are facing and it is with that very understanding of what they face that compels us to be here to ensure that we deliver reliable power and to ensure that we find our way to a renewable energy and energy efficient future.

Our State administration and legislature have recognized the need to secure Hawaii's energy independence for the future and transition our system to one that focuses on clean renewable energy, energy efficiency, and energy conservation.

The energy agreement signed by the governor, DBDT, the Consumer Advocate and the Hawaiian Electric Companies, one committed Hawaiian Electric to facilitate on an expedited basis. The integration of substantial amounts of clean renewable energy onto our grids and to enable electricity customers to manage electricity use more efficiently, drew together a wide range of initiatives, some of which were already underway and some of which were new.

The legislature picked up on the energy agreement by passing HB-1464 which increased the renewable portfolio standards. The governor since signed this bill into State law as Act 155. Act 155 increases our RPS requirement from in

2020 from 20 to 25 percent and adds a new 40 percent requirement for the year 2030.

Prior to January 1, 2015, at least 50 percent of the utilities RPS must be met using renewable energy to produce electric generation. After January 1, 2015, the utilities entire RPS must be by renewable generation and electric energy savings will no longer count.

In order to achieve these RPS requirements, the Company must aggressively pursue the energy agreement initiatives without delay.

Hawaiian Electric has recognized the importance of obtaining this new energy future, but it will require the company to transform itself. It can no longer be only the traditional provider of electric service. It must have the resources to configure its system and invest in new infrastructure and technology to enable a clean energy future to happen.

The resources required to make a renewable energy transition are substantial. It has affected almost every employee in our Company. For example, for the Big Wind Cable Project, dozens of electrical and civil engineers, environmental scientists, land agents, project managers, and financial analysts are working on the transmission system infrastructure options for the undersea cable system.

We have control engineers, operators, and mechanical engineers working on how to modify our generating units to integrate wind and affordable tech energy.

We have electrical, civil, and protection engineers, transmission and distribution planners designing the interconnections to the new renewable IPPs.

It was against this backdrop of rapidly changing energy landscape that Hawaiian Electric filed its 2009 rate case on July 3rd, 2008. The primary driver of the need for rate relief was the installation of Campbell Industrial Park CT-1 generating unit.

The new biofuel unit was needed to mitigate a reserve capacity shortfall in the Company's system and to provide peaking generation that would be needed to integrate renewable energy into the Company's grid. While also becoming the first company unit to substantially use an all green fuel.

Because of CT-1's large investment, the Company proposed a step increase designed to recover the full costs of the new unit, beginning on the scheduled and service date of July 31st, 2009.

With a CT-1 step increase, the Company requested a revenue increase of $97 million. Less than four months later, the Energy Agreement was executed requiring a number of revisions to the Company's rate proposal. These revisions included establishing a revenue balancing account, to decouple sales from the Company's revenues to be effective on the date of the issuance of the interim decision and order in this proceeding.

Decoupling was an important part of the energy agreement as it would help the utility to stay financially healthy even as electric sales volumes declined due to energy conservation and efficiency.

The Company proposed the RBA in this rate case to work in conjunction with the joint decoupling proposal that was filed in the decoupling proceeding to establish a purchase power adjustment clause as called for in the Energy Agreement.

It would allow the Company to recovery capacity O&M and other nonenergy purchase power contracts to a separate surcharge. Removing the uncertainty of recovery in these cases would enhance the credit rating -- agency's view of the Company; and, it would enable the Company continued access to capital markets, so they'll continue to invest in the infrastructure necessary for new renewable energy resources and reliability.

Although, there was a net increase in revenue requirement, the Company's requested revenue remained at $97 million since it could not request more than the amount in its original application without jeopardizing the rate case schedule; at the same time, there were other significant developments that impacted the customer of our Company and our Company.

As I mentioned earlier, world oil prices soared from an average of $80 a barrel in September '07 to a high of 145 in July '08.

Then the financial markets deteriorated and the U.S. economy was thrown into recession. These occurrences caused the electric sales to drop and strain the Company's income. Poor sales performance continued through 2009 or remains a primary cause for needed rate relief as our income is not sufficient to discuss to meet the obligations we're discussing today.

Stated otherwise, if lower sales somehow reduced our obligations to reliability or to make the transition away from fossil fuel, that might yield a different result, but lower sales do not do either.

In May of 2009, the Consumer Advocate, the Department of Defense, and Hawaiian Electric reached a settlement on all but two issues. As part of the Settlement Agreement, Hawaiian Electric agreed to forego the full-cost step increase for the new unit and effectively include only half the new unit's cost in a test year rate case.

The Company's expectation was that under the joint decoupling proposal Hawaiian Electric would begin to recover the other half of the investment in 2010 through the decoupling revenue adjustment mechanism.

The Company has agreed that the interim rate increase should be 79.8 million.

The two remaining contested issues were return on equity and information and advertising.

The Commission subsequently issued its interim decision order in July of this year. It reduced that rate increase, interim rate increase to 61.1 million. The interim order excluded a number of items from the test year revenue requirement. In response to the interim order, the Company filed supplemental testimony, which brings us to where we are today.

In short, the Company's current request is for the Commission to approve the Settlement Agreement executed by Hawaiian Electric, the Consumer Advocate, and the Department of Defense, include in the test year revenue requirements, those items that were excluded by the interim decision order, approve the Company's requested rate of return, uncommon equity of 10.75.

This is an updated number and assumes approval of the joint decoupling proposal, and approve a nonlabor information or advertising expense of 1.1 million, which is needed to help us achieve our clean energy goals.

With respect to the issues raised by the Commission in the interim decision order, our witnesses will explain the Company's positions in the panel hearing in the days that follow.

I do, however, want to address two of those -- two of these issues. First, receiving approval to cover CT-1 in this proceeding is absolutely critical to the Company. The orders in this proceeding and the orders in this proceeding and in the interim Imperium docket regarding CT-1 were challenging for us, but we accept them, understand the rationale, and then moved on.

The new unit is installed, connected to the grid and available to provide reliable electric service to customers. We have made our best efforts to secure alternate supplies of bio-diesel.

On October 1st, 2009, we executed and filed an application with the Commission for a contract with Greg Marketing and Logistics for 400,000 gallons of bio-diesel to conduct the emissions test. And we are currently evaluating proposals for a two-year contract for an operational supply of bio-diesel. We have good bids, and we intend to submit an application for that contract no later than November 16th of 2009.

As a result of this progress, we hope the Commission will approve CT-1 into rate phase as soon as possible. It is a significant investment for the Company and recovery of these costs will go a long way to rectify the Company's financial condition.

Further, following through on the PUC's early approval of the project by approving the dollars and rate base will show the investment community that there's regulatory support for the Company's utility investments in this State and help the Company maintain its credit ratings and access to capital market for the funds needed to pay for investment in capital improvements on behalf of our customers.

Secondly, I would like to address the issue surrounding the HCI positions in the rate case.

In my supplemental testimony, I apologize for the misunderstanding we created by the use of the HCI term, but I think it is worth expressing our regret again for not clarifying what we meant.

The recent information request from NRII have asked additional questions about our treatment of HCR-related positions and other costs and it would be worthwhile for me to clearly layout at the outset the Company's approach and the issue.

The energy agreement, or HCI, as it is times called, encompassed a broad array of activities. Our understanding of the Commission's concern was that it did not want expenses included in the test year revenue requirements for activities that were not yet approved by the Commission.

However, not all HCI activities required approval of an application. For example, negotiating more purchase power agreements and working with independent power producers was clearly part of the energy agreement and, yet, the impetus for this work predates the agreement and was driven by the Commission's own instructions to us to accelerate this work.

Another example is the work needed to develop and file applications since the support participation in proceedings before the Commission. The Commission recognized this as the interim decision order allowed in interim rates, legal and regulatory costs, even for HCI-related dockets.

A third example is research testing and development costs at the early stage of a new system or technology that requires long development lead times.

These activities are necessary to bring a new system or technology to the point where it can be commercially introduced and an application can be filed. These costs are already expended by the time the application is filed and are not part of the application unless the Company capitalizes or request deferral of the cost for later recovery.

With respect to the HCI positions, the Company has explained that most of the work performed by these positions was not for HCI activities. They required Commission approval and their functions would largely have been performed even if the Energy Agreement had not been executed.

Another key issue in this area is how the costs would be recovered, if they're not allowed to be covered -- recovered in this rate case. Recovery of costs to pursue renewable energy initiatives or any kind of initiative is a must for the Company. If the Commission does not allow them to be included in the test year revenue requirement, the costs need to be recovered in some other way such as through a surcharge or capitalization.

The complications of this is the Consumer Advocate's objection to recovering of labor costs through a surcharge mechanism. To address the Consumer Advocate's concern, the Company is refrained from proposing to recover labor costs through the REIP surcharge and eventually agree to that restriction as part of a global settlement in this proceeding.

So how is the Company doing financially?

One way of measuring this is to look at the Company's return of common equity. Our ROE was lower in 2008 at 8.7 -- 8.07 for ratemaking than that of most utilities and was nearly 300 basis points lower than our authorized rate of return. It will be low again in 2009.

As of June 30th, the 12-month trailing rate is 6.4 percent on a ratemaking basis, and the market tracks these things very carefully.

With the current economic recession, the Commission is understandably concerned about the impact of utility rates on customers. The Company's view is that in recessionary times there needs to be a balance between actions so that actions we take now do not damage prospects for customer benefit and health in the long term.

The actions necessary to transform Hawaii to a clean and independent energy future our worth taking. Certainly, our lawmakers do so, as they have made the attainment of a more stringent RPS state law.

A cornerstone for achieving this is a financially healthy utility. While this may seem self-serving, it is certainly the view held traditionally by all the parties in this room, including the Commission.

As I mentioned before, a financially healthy utility will be able to invest in the infrastructure needed for integration of renewable resources to the grid and make it easier for renewable energy providers to obtain financial -- financing for their projects. At the same time, it will be able to maintain reliable quality service; and, in the long run, it will be able to maintain higher credit ratings, which will translate to lower costs of capital and lower rates to our customers.

Without regulatory support, we will not be able to spend what we believe is needed to meet our obligations, and this will have a trickle-down impact on IPPs and the rest of the economy.

At the same time, the Company recognizes that in these difficult times it needs to contain costs where it can.

Poor sales and revenue shortfalls have made it necessary for Hawaiian Electric to cut back on expenditures to stop its financial situation from deteriorating further.

These cost containment measures include reduction such as travel, training, vehicle painting, and overtime. The question that the Commission may be asking is whether these cost containment measures should reduce the Company's revenue requirement.

Generally, they should only if the cost reductions are sustainable. If they are not removing recovery of these costs will ultimately harm the ability of the Company to provide reliable service and to achieve long-term energy goals.

The Company is in the process of identifying certain costs that it would agree to remove from rate recovery for the purposes of this rate case, and the Company will identify those reductions in its closing statement.

In conclusion, throughout this rate case, the Company has taken reasonable positions reducing its request when it could to facilitate acceptance by the Commission, the Consumer Advocate, and the Department of Defense, and being open to allow all parties to conduct their reviews of the Company's proposal.

If we are going to successfully meet the challenges that lie ahead, it's imperative that our Company continue to receive regulatory support in the form of timely rate relief and a continued willingness to be open to flexible and innovative approaches to managing the new challenges our industry faces.

To meet these challenges, while maintaining our financial integrity and access to needed capital, we will need to collectively consider ways in which we can simplify the regulatory process, continue to provide assurances to investors that prudent investments will be recovered in rates and embrace constructive redefinitions of the role that utilities can play in achieving clean, reliable and energy efficient production in the 21st century.

Rate increases at any time are difficult for our customers. They're even more difficult during an economic recession, but the need for adequate supply and reliable supply of electricity to our customers is not lessened because of the recession. The impact of not being able to provide adequate reliable electric service would be detrimental to all customers and catastrophic for our fragile and recovering economy.

The consequences of not being able to achieve Hawaii's energy objectives, energy independence with stable energy prices based on indigenous renewable and clean energy resources would be unforgivable. We can accomplish all that we expect to do, provide reliable energy and transition the

State to a clean energy future but only if we're financially healthy.

For these reasons, we hope that you, the Commission, will find our rate case proposal reasonable and worthy of approval.

Thank you.

CHAIRMAN CALIBOSO: Thank you, Mr. Alm.

Now we'll go with the Consumer Advocate.

MR. ITOMURA: Good morning, Chair Caliboso, Commissioner Cole and Commissioner Kondo.

In brief summary, the Division of Consumer Advocacy asserts that, similar to all prior rate applications, this proceeding involved numerous, complex issues, all of which were carefully analyzed by the Consumer Advocate's expert witness in preparation for discussions and ultimately for this hearing.

The Consumer Advocate conducted extensive formal and informal discovery consisting of thorough data analysis and supplemented by interviews of the Company's witnesses and employees. This effort was further supported by the Consumer Advocate's witnesses' familiarity with prior and related HECO cases and issues. Complexities increased considerably with the effort to consider and comply with commitments related to the HCEI issues.

Also, those issues raised in the HECO's updated filings, including additional staffing costs, new cost recovery mechanisms. However, these extensive negotiations were thoroughly documented for the Commission; and, as mentioned by Mr. Alm, a settlement was reached with the exception of two issues; and, the Consumer Advocate did sign the agreement on May 15, 2009.

The Commission's interim decision filed July 2, 2009, subsequently stated that the Commission sought to supplement the record in this docket on settled issues and also raised concerns regarding employee electricity discounts, staffing and wage rates during recessionary periods, and whether HCI-related costs should be included in rates at this time.

Also, additional issues emerged in the Commission's August 2009 order denied approval of the amended biofuel contract for CT-1. However, the Consumer Advocate welcomes this opportunity within this panel hearing format to clarify, to explain, and to confirm agreements on all issues and to provide witness testimony advocating for the appropriate test year expenses for information on advertising and the appropriate return on common equity for the test year.

So, again, thank you for that opportunity, and we hope to provide that clarification for the Commission.

Thank you.

CHAIRMAN CALIBOSO: Thank you, Mr. Itomura.

Mr. McCormick, for the Department --

MR. MCCORMICK: Thank you.

CHAIRMAN CALIBOSO: -- of Defense.

MR. MCCORMICK: Chair Caliboso, Commissioners Cole and Kondo, and Mr. Hempling, the Department of the Navy represents the consumer interest of the Navy and the Department of Defense, or DOD, in the State of Hawaii, view the installations on Oahu are major purchasers of electricity from Hawaiian Electric company, or HECO, and most of DOD's electricity is purchased under the PT and PP rate schedules.

On July 3rd, 2008, HECO filed an application for approval of its rate increase and they requested a general rate increase of approximately 97 million over revenues at current effective rates. The Commission granted DOD intervention on August 20th, 2008. On April 17th, 2009, DOD filed three sets of testimonies and exhibits regarding revenue requirements, cost of capital, and cost of service, cost allocation, and rate design issues.

I'd like to read to just real quickly the duty position on the revenue requirement.

We presented testimony by Ralph C. Smith related to revenue requirements of the proposed various adjustments to rate bases and operating income that reduced HECO's proposed revenue requirement to $42.1 million. The major adjustments to the rate base were related to removal of customer information systems cost, cash working capital, and accumulated deferred income taxes.

The major adjustments to the operating income were related to pension and OP and B -- OPB costs average test year employees, depreciation of amortization, research and development tax credit, vehicle fuel costs and rent expense.

The DOD position on cost of capital, which is one of the issues being debated, we recommended the equity costs of the Company's utility operations to be point 9.5 percent, which is the midpoint of a reasonable range of equity costs for otherwise similar risk electric utilities.

That recommendation considered the Company's relative low financial risk as well as the new regulatory paradigm be implemented here in Hawaii.

We estimated the equity capital costs of similar risk electric utilities to fall in the range of 9.25 percent to 10.255 percent. The costs of equity capital was evaluated for similar risk utility operations using discounted cash flow, capital asset pricing model, modified earnings price ratio and market-to-book ratio analyses.

All this information is found in the testimony on supplement testimony in exhibits of Stephen G. Hill, previously submitted by the Department of Defense.

Applying that 9.5 percent equity capital costs to the Company's recent average capital structure produced an overall cost of capital of 7.84 percent. This overall cost of capital affords the Company any opportunity to achieve a pretax interest coverage level ratio of 4.71, 4.71 times. That is well above the level of interest coverage actually achieved by HECO over the past five years, which has averaged 3.41.

Therefore, our recommended capital structure and equity return of -- at 9.5 percent would be sufficient to support the Company's financial position that fulfills the requirement of providing the Company the opportunity to earn a return which is commensurate with the risk of the operation, while maintaining the Company's ability to attract capital.

DOD's position on cost of service and rate design, and our testimonies by Maurice Baker -- Brubaker, we stated that the embedded cost methodology employed by HECO is generally consistent with energy practice and is suitable for use in this proceeding. HECO's proposed Schedule P and propose -- proposal to establish a rate for directly served customers.

Rate DS are reasonable and should be adopted. The study that HECO presented to develop the costs associated with the power factor connection is unreliable -- excuse me, correction. HECO's proposal not to change the current power factor charge is reasonable in light of the lack of an appropriate study.

Our testimony shows the proposed across-the-board increase does not move classes closer to costs of service. Instead it moves the rates for all major classes farther away from costs.

Final cost allocation decision should adopt an allocation methodology to reduce existing inter-class subsidies meaningfully; in other words, to return to your tradition cost base ratemaking principles.

We think the signed statement -- Settlement Agreement accomplishes that purpose. Our position on the Settlement Agreement is further detailed.

On May 15th, 2009, HECO, the Consumer Advocate, and DOD filed a Settlement Agreement on most issues effecting the revenue requirement, reserving the two issues mentioned by the Consumer Advocate for resolution at this hearing; namely, advertising expense and return on equity.

The settlement provided for an interim revenue increase of 79.82 million, based on the Commission decision in order, dated July 8, 2009, HECO filed revised calculations support of a probable entitlement amount of $61.1 million. This was the interim rate increase.

On July 20th, 2009, the DOD filed supplemental testimony stating that DOD would use the Settlement Agreement as an integrated package that was negotiated by the parties for the comprehensive and balance resolution of the issues associated with revenue requirement and the allocation of the rate increase.

Overall, the DOD is satisfied with and continues to support the result of the Settlement Agreement as a negotiated package.

And this concludes my opening statement and thank you very much.

CHAIRMAN CALIBOSO: Thank you, Mr. McCormick.

That's it for our opening statements. We finished this section, so let's just move on to Panel 2.

Mr. Hempling?

MR. WILLIAMS: Excuse me, Mr. Chairman. Can we take a couple of minutes to rearrange here?

CHAIRMAN CALIBOSO: Sure. Why don't we recess for five minutes.

(Whereupon, at 9:42 a.m., a recess was taken, and the proceedings resumed at 9:50 a.m., this same day.)

CHAIRMAN CALIBOSO: Good morning, again.

We'll reconvene this hearing.

It might be helpful if each of the parties please identify and stated who is on the panel, of this particular panel, and especially if there are any changes.

Mr. Kikuta, would you like to start?

MR. KIKUTA: Sure. For purposes of Panel 2, the panel to be identified are Mr. Alm, Mr. Giovanni, Mr. Young, Mr. Yamamoto, Mr. Hee, Ms. Nanbu, Ms. Chiogioji, Mr. Roose, and Mr. Seu.

Due to space limitation, we'll just have a couple of panels appear at a time; and, as the questions are asked, we have an open spot where the appropriate panelist will sit with their name tag to respond to Mr. Hempling's or the Commission's questions.

CHAIRMAN CALIBOSO: All right. Thank you. And, if possible, could you tilt or point your name tags so that they're visible from the side of it, if possible.

All right. Consumer Advocate?

MR. ITOMURA: For our panel, we have Mike Brosch and Steve Carver.

CHAIRMAN CALIBOSO: All right. Thank you.

And nothing from Mr. McCormick and the Department of Defense. Correct?

MR. MCCORMICK: Just myself and Dr. Davoodi to listen in.

CHAIRMAN CALIBOSO: Thank you.

All right. Mr. Hempling, go ahead.

MR. HEMPLING: Thank you, Mr. Chairman.

I think everybody who's here has been through this with me before. This case is a little different from prior investigations for a couple of reasons.

One is we don't intend the Commission's questions to be as far-reaching, deep-digging, and as comprehensive and systematic as they often are; so, sometimes the questions will have a random quality to that, and it doesn't reflect are not knowing what we're doing, but it reflects sort of a hunting and venting approach to various subject areas.

I think, as usual, nobody should be running for their cellphones if I ask a question that sounds argumentative or sounds like I'm trapping. I'm just trying to get a straight answer and I don't intend anything inappropriate.

My job is to help the Commission get as clear a picture of some of the issues they've identified as being unclear; and, so that's how we'll proceed, and thank you.

So this Panel 2 is focused on HCEI costs and also the employee count. The general goal I have for this next period of time is to do three things.

One is to identify which costs, if any, that are in either the settlement rates or the interim rates, relate to unapproved HCEI programs or programs waiting for approval.

Secondly, to determine whether these costs will occur in the test year and to what extent.

And, thirdly, to the extent they're not going to occur in the test year, discuss alternative means for recovering other costs when they get incurred. That's the general purpose of this to help the Commissioner ensure that cost recovery that's deserved occurs and it occurs at the right time.

So I want to start with the positions, the 13 positions that the Company removed from rates based on an interim order. And you listed those 13 positions and described them in your ST-15, pages 12 to 13.

And who was the witness on that?

MS. CHIOGIOJI: I was.

MR. HEMPLING: Okay. And it's Ms. Chiogioji?

MS. CHIOGIOJI: Yes, that's correct.

MR. HEMPLING: Okay, welcome.

So you had an IR response to PUC IR 118 and Attachment 1 to that response had a four-column chart identifying each of the positions, the workload, the percent of time spent on HCI unapproved programs and the status.

Are you familiar with that response?

MS. CHIOGIOJI: I am familiar with the response. I'm familiar with the response. I think that might be another witness.

MR. HEMPLING: Well, we'll see. We'll see. Why don't we start and see how it goes --

MS. CHIOGIOJI: Okay.

MR. HEMPLING: -- okay?

MS. CHIOGIOJI: Thank you.

MR. HEMPLING: You have a document in front of you.

MS. CHIOGIOJI: Thank you.

MR. HEMPLING: You have the document I'm referring to.

MS. CHIOGIOJI: I have it in front of me.

MR. HEMPLING: Okay. With respect to the percentages that you have in italics reflecting their percent of time spent on HCEI activities that are not yet approved, is it your view that it's best to include the total costs, meaning include the italicized amount in rates now because those activities are certain to occur in the test year?

MS. CHIOGIOJI: That is correct. That is our belief.

MR. HEMPLING: When you say it's your belief, do you have any uncertainty about it?

MS. CHIOGIOJI: I think they indicate the certainty of the PV Host program implementation if approved.

MR. HEMPLING: So to the extent you have uncertainty, it's uncertainty about the schedule of the Commission's decision-making?

MS. CHIOGIOJI: Yes.

MR. HEMPLING: In other words, if the Commission approved these programs in the test year, you'd be incurring the costs in the test year?

MS. CHIOGIOJI: That is correct.

MR. HEMPLING: And if the Commission did not approve the programs until after the test year, you would not be including the costs -- excuse me, you would not be incurring the costs in the test year?

MS. CHIOGIOJI: I think we would still be incurring costs because, as the witnesses have identified, the employees are also spending time doing related activities, and Ms. Patsy Nanbu can provide more information.

MR. HEMPLING: Okay, hold on. Before we -- I just want to -- I want to hair split this as much as a lawyer can.

I understand the Company's position that all these employees are working full-time doing what you deem to be useful work; and, I understand, further, that there's a distinction pointed out in the prefiled testimony by Mr. Alm, that there are activities that would be going on even if there were not specific-HCEI programs, and I understand that.

So now do you understand what you were just saying in terms of these activities all being related to HCEI?

Ms. Nanbu?

MS. NANBU: To clarify that point, I think if you're looking for spots to PUC IR 118, under the 13 provisions, ten of the positions have already been hired; so, the Company is already incurring the costs from those 10 positions. I think it's stated that two of the positions or three of the positions are in the process of being filled; and, with the anticipation that they will be filled shortly, we will be incurring those costs on an ongoing basis.

MR. HEMPLING: Right, I understand that, ma'am.

But what I'm asking is about the italicized percentage reflecting your view as to the fraction of the time spent that is associated with still-to-be approved HCEI programs.

And my question -- I guess I got to make sure I understood your prior answer, which is that if the Commission approves those programs in the test year, you're certain that those percentages of time will occur in the test year.

I got that, Mr. Seu?

MR. SEU: Well, good morning, Hempling.

MR. HEMPLING: Good morning. I should have said good morning first. It would have been more polite.

Go ahead.

MR. SEU: May I ask you to restate what you just said.

MR. HEMPLING: I'm not sure it's worth restating. Let me start it again.

The focus for the Commission right now is the appropriateness of allowing into rates the italicized percentages of the salaries of the 13 people.

Do you understand that?

MR. SEU: Yes.

MR. HEMPLING: Okay. Why don't you just make your best argument that these percentages belong in rates now and then we'll follow up from there.

MR. SEU: Well, let me just address the example of the PV Host program since that comes under my department. So the italicized percentages that's in PUC IR 18 and our response is that should this program be approved by the Commission that 50 percent of this person's time would be spent administering that program, if approved.

Now I think the procedural schedule that has been developed for that application has completion of the docket expected year 2010 perhaps; certainly, not in the test year 2009.

So what we are saying is that in this PUC IR response, the person already is 100 percent working on non-PV Host activities. And I described in this response here some examples, including utility PV projects, battery energy storage projects; so, these are projects that are completely separate from PV Host.

If the Commission in 2010 were not to approve the PV Host program, this person would continue on doing the non-PV Host activities; so, one way or the other the person is already 100 percent working on non-PV Host activities.

If the program does get approved next year, at that point, this person would take on additional work. I would have to reshuffle the duties among this person, as well as other staff, to accommodate the new PV Host duties and continue on with the non-PV Host duties; and, so that's the example here.

MR. HEMPLING: And can you offer similar insights as to any other that arose on this table?

MR. SEU: Yes. The --

MR. HEMPLING: Can you give me the row so we know what you're looking at?

MR. SEU: Sure. So the PV Host row was Row No. 2. Row No. 3 regards also under in the resource acquisition department, a senior technical services engineer position.

The person here is -- this position would support our various distributed generation development activities. Examples being dispatchable standby generation projects, such as what we have going on with the Department of Transportation at the airport, development of distributed generation and utility sites; so, that's the primary focus of this position.

MR. HEMPLING: Which row was that again?

MR. SEU: This is Row No. 3. And there was one --

MR. HEMPLING: Excuse me. As I understand it, Row No. 3 has no italicized number anyway.

MR. SEU: That's correct. Although, there is a reference to the assessment of a HECO substation DG units. That's an assessment. That assessment was actually mentioned or described in HCEI, but we did not assume that that was specifically an HCEI activity because this is, as I would describe it, an ongoing type of an assessment that we would expect for our engineers to do looking at distributed generation.

MR. HEMPLING: All right. What other rows can you speak to?

MR. SEU: Row No. 4, power purchase negotiation division for a director. Italicized we have a 25 percent number for fee and tariff power purchase contracting. I think at the -- well, I think having seen the Commission's decision in order in the fee and tariff proceeding that came out at the end of September, it's fairly clear that this person will be spending at least the 25 percent amount of time supporting the fee and tariff implementation person.

MR. HEMPLING: In the test year?

MR. SEU: In the test year.

That position has not yet been filled.

MR. HEMPLING: Do you expect to fill it in the test year?

MR. SEU: Yes, I do. It's been somewhat of a challenge actually because of the unique expertise that's required to take this position. We're still in recruitment.

MR. HEMPLING: Any other rows?

MR. SEU: Row No. 5, power negotiation division italicized; again to support fee and tariff, our purchase contracting. This is an expense that would be incurred in the test year.

MR. HEMPLING: The same reasoning as Row 4?

MR. SEU: Yes.

MR. HEMPLING: What else?

MR. SEU: I think, at that point, those cover the positions of this IR response.

MR. HEMPLING: Anybody else in this room want to speak to the other rows?

COMMISSIONER KONDO: Can I ask a follow-up question with regards to the PV Host, just so I understood your answer.

What I understand you to be saying is that the person is employed now and his plate is full, he's working on non-PV Host stuff?

MR. SEU: Yes.

COMMISSIONER KONDO: And if PV Host is approved by the Commission, you'll reshuffle the work on everyone in your department's plate to allow this person to have some room on his plate to do PV Host-related activity; is that correct?

MR. SEU: That's correct. I would reshuffle duties, as well as also, in the future of 2010 or beyond, consider whether I need to have additional resources to the department.

COMMISSIONER KONDO: Now the reshuffling, it implies to me that the employees in your department that their plates aren't full; in other words, they have capacity.

Now given what Mr. Alm said at the beginning about the pain being shared, I guess I'm trying to understand why the Company doesn't reshuffle now to make sure that people's plates are full and that there would be additional capacity for this person which perhaps should not be included in rates currently. I'm not sure --

MR. SEU: Commissioner Kondo, I didn't mean to imply that any of my people's plates are not full.

COMMISSIONER KONDO: Well, if you have the ability to reshuffle if the Commission approves PV Host, that implies, to me, that you have the ability to add work at other people's plates.

MR. SEU: This is -- let me explain, Commissioner Kondo, how -- what I meant by reshuffling.

As fee and tariff with the decision in order, there are additional duties, administrative tasks, technical duties that would need to be somehow accommodated by our department.

So when I say "reshuffle," assuming that PV Host is approved, we would have to, first of all, assess what is the additional workload that would be required.

Now we have -- my staff consists of all merit employees. So when we reshuffle work, we add additional work to people as necessary. We have to make decisions on whether there are other activities that maybe we can defer; or, perhaps we use outside services to support. But, in totality, the reshuffling means we understand we have to take on additional work.

I don't know, for example, if it will be possible to hire additional bodies to take on the additional workload. I don't know whether there will be qualified consultants that are available to also support this; but, I do know that if it's coming through a Commission order to implement a program, our obligation is to actually figure out how to get the work done; and, in the end, we spend many hours beyond a 40-hour workweek; these are, again, merit employees.

COMMISSIONER KONDO: Thank you for that clarification.

MR. HEMPLING: I was asking if there was anybody who could speak to the remaining rows.

Thank you, Mr. Seu.

Good morning, Mr. Roose.

MR. ROOSE: Good morning.

MR. HEMPLING: Do you understand my question and this purpose?

MR. ROOSE: Yes, I do.

MR. HEMPLING: Do you want to speed us through?

MR. ROOSE: So looking at the attachment of PUC IR 118, I can speak specifically to Items six, seven, eight and nine.

Those four positions report to me in the system integration department referring to the 25 percent of each of those positions right now. And, at present, they are -- all the positions are filled. They are conducting work right now that's consistent with those percentage allocations of their time. And this department, most all of the staff actually provides this work for HECO, HELCO, and MECO.

So the work that they do for the HECO system basically is allocated 50 percent of their total time, and half of that time, or 25 percent in total, is being focused right now on the Big Wind project efforts. Those activities have been going on for quite some time now. We've actually been interacting with the proposed developers of those projects.

In fact, from early 2007, you know, we've been working to fill these positions. All the positions, again, are filled as indicated on that exhibit.

MR. HEMPLING: Concerning in all of the -- you can see the first three -- six, seven, eight and nine, that's what you were just referring to?

MR. ROOSE: Correct.

MR. HEMPLING: What's the nature of this quotes -- what's the nature of the work it's doing on the Big Wind project and the implementation studies?

Can you describe?

MR. ROOSE: Sure. For those studies right now, we really are at a phase to understand how we are going to try to integrate this magnitude of renewable energy on to the grid. In addition, the Big Wind efforts, we have a lot of other renewable energy proposals that we are dealing with today as well as we've been dealing with for quite some time.

When we look at trying to integrate energy at these levels of penetration, they really are unprecedented; particular, for small isolated island grids like we have here in Hawaii; so, a lot of work we have to do is some very extensive planning work.

We need to do extensive modeling of the systems. We have to develop the models, first of all. We have to develop the data and figure out, you know, what will it take to integrate this energy.

There's solutions that, I think, exists both on the side of improvements to the system. Many of the studies that are ongoing right now in this Big Wind effort are focused in that area. There's also potential solution sets that exists with the introduction of new, you know, resources or equipment that can help facilitate the integration; for example, battery energy storage, things of that nature.

So a lot of work is focused on, again, what would be its potential solution sets to do that. That's sort of been what we call in the bucket of the OWITS category of studies.

MR. HEMPLING: What is it?

MR. ROOSE: OWITS. That's an acronym for Oahu Wind Integration and Transmission Study.

There's another bucket of study efforts that we characterize as TCRIPs (sic) for the Transmission and Cable Integration Route Cable and Routing -- Transmission Cable Routing and Interconnection Studies. Sorry.

MR. HEMPLING: I'll try to remember that.

MR. ROOSE: Yeah, that's why I call it TCRIPS.

But those efforts are really focused on doing a lot of the -- in really the general planning efforts looking at different routes and trying to figure out, you know, what would be the potential best way to integrate this energy in terms of the transmission infrastructure that would be acquired to pull this energy into the system. There's a lot of general planning working in that area too. There's two, sort of, high level buckets of the work going on.

MR. HEMPLING: This work that we're referring to now, the 25 percent italicized in each of the four rows, is work that you would have to do in order to ensure that any proposal to the Commission for Big Wind was a viable proposal, as I understand it?

MR. ROOSE: Yes. Fundamentally, we need to, you know, get into this general planning work to understand the viability and then, you know, if viable, how would you go about doing it again. It's really taking the envelope of renewable integration to another level.

MR. HEMPLING: Are you saying that the bulk of it is work that you would have to do to address wind integration issues without regard to this specific Big Wind project?

MR. ROOSE: In some regards, but, you know, I think this particular Big Wind effort, again, is pretty specific insofar as the amount of energy we're trying to integrate up to 400 megawatts of wind; again, from the neighborhood islands, which would necessitate the development of the undersea cable system and then integrating that parlance so it doesn't short into the system.

So there are many aspects of what we're doing that are, you know, tightly coupled to that particular initiative.

From one standpoint, though, again, a lot of the planning work we're doing now will educate us and better prepare us to figure out how to integrate it and not just the wind but other renewables that we're also dealing with, but the primary focus, again, is integrating these large amounts of wind into the system.

MR. HEMPLING: Is that it on those four rows?

MR. ROOSE: At this time, yes.

COMMISSIONER KONDO: Mr. Roose, could I have a follow-up question?

MR. ROOSE: Sure.

COMMISSIONER KONDO: Maybe it's opposite of what I asked Mr. Seu.

MR. ROOSE: Okay.

COMMISSIONER KONDO: But if Big Wind was not a project that the Commission found to be a prudent course for the Company, would these three employees be a hundred percent with the Company, would their plates be full?

MR. ROOSE: Yes, absolutely. Right now, with all the different work we have going on, across the board, again, we have many renewable project initiatives that we're working on. I tried to summarize those and outline them in the attachment to my testimony, even without this Big Wind work, we have an abundance of work that we keep our people fully active and busy throughout the week.

COMMISSIONER KONDO: So the explanation that Mr. Seu said we have a merit employee and we're just adding more to his plate because you have to get the work done, is that the situation?

MR. ROOSE: I mean, essentially, that is the case. I mean, you know, we do in our area with our merit employees we work long hours, a lot of hours, a lot of time beyond sort of the standard days, yeah, there's an abundance of work. I think, you know, the natural effect of having more work that you can do tends to sometimes, you know, it affects hours outside of your normal working hours, but you got to do the work so. We work the folks and everybody pulls together and tries to get the work done.

COMMISSIONER KONDO: Thank you.

MR. HEMPLING: Anybody that can speak to the remaining rows in this same exhibit?

MS. NANBU: I can speak to Item 12, which is a position called for in the general accounting department.

The lead corporate accountant, I think, in this position it was called, quote, an HCI position; but, the primary purpose of this position is to address doing analyses of power purchase agreements based on the accounting standards that we need to evaluate whether arrangements contain a lease and whether there are consolidation issues that get triggered. We were getting these kinds of proposals prior to the agreement and we are continuing to get proposals.

Since putting this position into the history estimates, the accounting guidelines have been modified such that this type of analysis needs to be done on a quarterly basis prior to the -- this new standard that goes into effect in 2010.

Assessments on consolidation was required only when, quote, there was a triggering event, such that now our workload has increased significantly because each quarter we need to do an analysis of each of the contracts and document our conclusions as to whether a consolidation is triggered or not.

Also, there are some move towards international financial reporting standards. While it's not quite certain that they'll require all U.S. companies to move to IFRS, there is also a movement to merge -- converge both IFRS and U.S. GAAP together such that there are more standards that are coming out now; and, it requires our accountants to do further analysis as to whether we are in compliance with Generally Accepted Accounting Principles.

You know, part of the position workload would increase with approval of some of these programs, such as the Big Wind initiatives; or, AMI to increase our reconciliation efforts, but there are additional reconciliation requirements already that are taxing our existing staff; again, these people are merit employees, so they just need to get the job done.

MR. HEMPLING: Okay. That's Item 12.

Anybody else?

Mr. Hee, good morning.

MR. HEE: Good morning. My name is Alan Hee.

I am going to address positions 10 and 11.

The first, No. 10, is director of special projects. The percentages of work there represent what he's actually doing in 2009, which is the 2009 test year. None of the work here is related to the implementation of the AMI -- AMI or PV

Host or life line rates or any of those. It's what he's actually doing now; so, let me go through that.

MR. HEMPLING: Well, excuse me one second. Maybe I can shorten.

Why is the 60 percent in italics if it's not time spent on to be approved pending programs?

MR. HEE: It is on to be approved but it's not for implementation of that program. So, for example, what he's doing here with the load aggregator, which is in the energy agreement, and is part of the HCI agreement, is to develop an RFP to evaluate the bids to design the RFP, so to speak; so, it is work that he's actually doing in preparation for the selection of that aggregator.

MR. HEMPLING: Well, excuse me. But there's not a pending, before the Commission, a program to which this 60 percent is attached. Correct?

MR. HEE: That is correct, in a sense. There is -- we do expect to file an application for the approval of the -- a low aggregator. It has not yet been filed. It is, however, part of the CIDLC or the Commercial Industrial Direct Load Control program; and, that is an existing program for which we have requested an extension from the Commission in 2010; so, in that sense, it is already part of an existing program and of an existing application.

MR. HEMPLING: Okay. What else on Row 10?

MR. HEE: So No. 11 is a senior rate analyst.

Again, the work of a senior rate analyst is to design rates to identify how -- what those rates are in comparison to rates in other utilities; so, the 55 percent of this position's work straightforward, it is evolved in decoupling, and we did have a decoupling docket this year, and that was that portion of the work related to that docket.

MR. HEMPLING: Again, excuse me.

Again, so the 55 percent in Row 11 relates to activities that are necessary to prepare and defend a viable proposal before the Commission at this time. They don't relate to implementing proposals that have not been approved?

MR. HEE: That's correct. They're all work that he's actually performing now in preparation for the applications and the hearings.

MR. HEMPLING: Okay. Further what I'm getting down here is this, perhaps, among all of us, some imprecision in the column heading unapproved, because what you're describing are normal regulatory prefatory activities; so, that when the Commission gets a proposal, it's a viable one and not one that's in rough draft form that you're going to work out as we sit here. Right?

MR. HEE: That's correct, this is all involved in applications that have been filed with the Commission or will be filed with the Commission because the PV Host hasn't yet been filed.

MR. HEMPLING: Okay. And what was left? That's 11?

MR. HEE: That's it for 10 and 11.

MR. HEMPLING: And No. 1? Well, that's only 5 percent.

Good morning, Mr. Simmons. I'm sorry -- where did Mr. Simmons go?

Well, it's only 5 percent, so we can make it quick.

MR. GIOVANNI: It's our project manager in the engineering department and the power supply process area, and his work entailed a survey of solar plexion sites at our existing facilities, work that is called out in the agreement and would have been done in any case as part of our agreement.

MR. HEMPLING: So what does the 5 percent represent?

MR. GIOVANNI: It represents 5 percent of his time that was devoted to surveying our sites that are existing facilities for potential solar collector sites for future projects.

MR. HEMPLING: So why is it designated relating to an unapproved program?

MR. GIOVANNI: Because it was called out in the agreement specifically to do that work.

MR. HEMPLING: Right. It was the whole confusion.

It was called in the agreement, but it doesn't relate to an unapproved program, does it?

MR. GIOVANNI: No, I believe, it would be part of our business.

MR. HEMPLING: Okay. So you didn't have to get up here, even if you put a 100 percent instead of 95 and 5, you wouldn't have to get up.

MR. GIOVANNI: Thank you.

MR. HEMPLING: Excuse me, one second, please.

MS. CHIOGIOJI: Mr. Hempling, I have No. 13.

MR. HEMPLING: Okay. I'm looking to see where No. 13 went to. I believe it got cut off.

MS. CHIOGIOJI: The Budget and Financial Analysis Department.

MR. HEMPLING: Okay. What is it?

What was it, again, please?

MS. CHIOGIOJI: Beg your pardon?

MR. HEMPLING: I said, what was it again, please, No. 13?

MS. CHIOGIOJI: Number 13 is the Budget and Financial Analysis Department.

The position was originally a senior financial analyst; and, in March 2009 restructuring, the new budgets and financial analysis department was created, and the position has since been filled as a manager budgets and financial analysis.

MR. HEMPLING: And what was the percentage that was italicized?

I'm sorry, I have a printing problem here.

MS. CHIOGIOJI: Percentage time to HCI-related initiatives is identified as 25 percent.

MR. HEMPLING: I would say HCI-related programs that are pending but not approved?

MS. CHIOGIOJI: Correct. Thank you.

MR. HEMPLING: Okay. You get us all bollocks up and someone will go to the press and the fish will get criticize-ed, and we don't need that.

Go ahead.

MS. CHIOGIOJI: Thank you very much.

MR. HEMPLING: All right. So what portion relates to programs that are pending and not yet approved?

MS. CHIOGIOJI: Twenty-five percent related to parts that are pending and not approved.

MR. HEMPLING: Okay. And what is the person doing in that 25 percent?

MS. CHIOGIOJI: The activities are identified as the assessment of the fee and tariff, Big Wind, and to support decoupling evaluation and implementation.

MR. HEMPLING: Well, your explanation or justification for a recovery of those costs would be very similar to the ones Mr. Seu and Mr. Roose raised; is that right?

MS. CHIOGIOJI: That's correct.

MR. HEMPLING: Okay. Excuse me, a second.

MS. CHIOGIOJI: I would also like to --

MR. HEMPLING: Excuse me, one second, please.

MS. CHIOGIOJI: Sorry.

MR. HEMPLING: Go ahead, ma'am.

MS. CHIOGIOJI: Okay. With respect to the exempted employees taking on additional work, that is something that is occurring with many of our management employees. Currently, on merit, exempted employees do not receive overtime, and in a recent payroll report, as we looked at coming toward the end of the year, approximately one-half of our employees are merit, about 800 employees.

Our vacation policy allows 120 hours of unused vacation to carry over each year, and any excess of 120 hours is lost.

As of mid-October, roughly, half, 393 of our employees already accrued 120 or more hours. 220 of them, about 25 percent of all of our merit employees, have already accrued over 160 hours. With a few exceptions, the vast majority of our list of merit employees are exempted. They are working unpaid over time currently; and, the purpose of vacation is to revitalize, reenergize, but they are not able to do so; and, some of those employees are in the room today.

MR. HEMPLING: Anything from the Consumer Advocate on this discussion so far?

You all have been supportive of 100 percent recovery notwithstanding the italicized percentages. Correct?

MR. BROSCH: This is Mike Brosch.

I would add that the challenge in evaluating labor cost recovery is that we deal with work definitions and this duty that's reshuffled.

And when you're talking about projects that are tasked with a start date and an anticipated completion date, it's normal for the utility to consider what staffing requirements there are and whether people can be reassigned to do that work; and, then when it's completed, go somewhere else and do so other work; or, whether there's justification for adding a new position.

And part of this tracking of labor costs into activities is addressed in my CAT-1 testimony, where I'm describing some of the changes arising from this Clean Energy surcharge opportunity, this new cost recovery device; and, I would just be interested in responding to any questions you have about the Consumer Advocate's concern with running labor costs through that surcharge recovery mechanism, because it's all tangled up in this issue of reshuffling duties and tracking labor costs into specific tasks in activities required to implement HCEI activities.

MR. HEMPLING: There is a point in which I'm going to talk to you about the surcharge recovery of labor costs, but all I was asking now is whether you had any issue with the Company's proposal to have a hundred-percent recovery; so, it's really a yes or no?

MR. BROSCH: The answer is we have no issue; and, in part, the reason we have no issue is we try to track labor staffing levels and have addressed the concerns we had with the employee vacancy adjustment that Mr. Carver can speak to, when you want to talk about that.

MR. HEMPLING: Okay, thank you.

Just on the AMI positions, who answers those?

I'm referring to the six AMI positions that are not among the 13 that we just discussed.

Is that Mr. Roose?

Welcome back.

Mr. Roose, these AMI positions, and the six that I'm referring to are the six that are referred to in HECO Supplemental Testimony ST-15, pages 25 and 26. I don't think you need to pull out the document.

MR. ROOSE: Sure.

MR. HEMPLING: I just want the record to be clear.

These positions relate to the existing AMI pilots or to the proposed full scale rollout, or both, if there's a distinction even?

MR. ROOSE: Really, the work that has been ongoing with AMI goes back many years in the Company, and the staffing plan to move up to the six positions has been in place for some time. Much of the work they're doing today continues to be on really the piloting many of the R&D efforts that are necessary to really develop a good, robust AMI project.

They really are prefatory to those, to that ultimate end objective; so, they are more focused on, again, the development of a good AMI program.

MR. HEMPLING: One could infer from your comment that the Company's proposed -- the Company's AMI application is going to change before you start the proceeding on the grounds that your folks are going to learn more, is that a possibility?

MR. ROOSE: At this time, yes, we have requested the extension, as you know in our AMI project, and the hearing date has been moved out approximately nine months, I believe.

Yes, there is work that's ongoing right now to continue to assess the AMI project in a couple of key areas; one, of which is the whole smart grid initiative, which has really been taking off, I think, industrywide.

So we do have a lot of focus on those efforts right now, including doing road mapping for our Company's future roadmap of smart grid and how AMI ties into that. So a lot of their work is focused on that, and there's expenditures and labor time going through those; so, it could very well effect ultimately the AMI program as it's been put forth to the Commission next year.

MR. HEMPLING: So if I were to ask you -- I'm going to ask you, The delay of the AMI proceeding, if I were to ask you whether the delay is going to affect the work of the employees, it's really the other way around, it's the work of these employees and its incompleteness at this time, that is the justification for deferring the AMI proceeding?

MR. ROOSE: A lot of the time that they're spending now, as well, again, as going forward, would be against prefatory to those proceedings that will be forthcoming next year.

MR. HEMPLING: How much of this work by the six is repetitive of what a hundred other utilities are doing around the country, and do you have a sense of whether everybody is floundering around at the same time; or, whether you're six folks are actually breaking ground in Hawaii that others are going to make use of?

Any sense for the Commission as to whether it shouldn't just wait until everybody else figures out what they're doing and then pays for these employees?

MR. ROOSE: No. Number one, I would say the employees and the initiative is not floundering at our Company at this time.

You know, secondly, you know AMI is such a critical part, I think, of the Company's future and really for all utilities in the industry.

What it really will do is implement the -- you know, when you look at AMI and its components, the key component is the communications infrastructure. It doesn't exist today at Hawaiian Electric, as well as other utilities, and that comment restructure will allow the utility to give it a really touch and communicate with every single one of its customers.

It will also, ultimately, you know, install our system as part of our key infrastructure, a COM system that can go beyond just communicating with our customers but also, and this is where, I think, a lot of the smart group functionalities come in, the ability to have more data acquisition, understanding of what's going on the system in realtime, as well as potential control of devices.

So those are key elements right now that are going on. You know, there is a lot of advancement and technology at this time; at the same time, it benefits that one can accrual out of an AMI project as we're aiming to achieve are important in that -- and they really, you know, should not be postponed or altered indefinitely.

And, I think, those benefits are there,

particularly with respect to the -- you know, the ability to get their goal, meter reads, which is fundamental to any of my programs. I think physical reads of people's usage, those are the key benefits of AMI and those benefits exist today.

It's really trying to align those aspects of the AMI, again, with broader, I think, smarter group functionality as we look into the future with a lot of, you know, automation and control of the grid, as well as customer load in those facets.

MR. HEMPLING: Some of this time spent by the six employees is an inevitable learning curve time and some of it's time spent developing HECO-specific solutions. Right?

MR. ROOSE: That's correct.

COMMISSIONER KONDO: I have a question about the AMI, Mr. Roose.

MR. ROOSE: Sure.

COMMISSIONER KONDO: Assuming the Commission approves the AMI program that the Company has proposed, does the Company anticipate adding employees?

MR. ROOSE: Yeah, I think the long-term plan for AMI in terms of an implement -- a full implementation of the program will require additional staffing. You know it really is about a rollout of, like I mentioned, an entirely new communications infrastructure across all of our systems, HECO, MECO, and HELCO, and as well as a rollout and replacement of every single meter for every single customer; largely, all of them, I think, the percentage is up in the high 90 percent of meter replacement.

So that implementation which would roll over a period of years will require additional staffing in turn as well as the original external resources.

COMMISSIONER KONDO: The reason I ask that is because at the time the application was filed in this case, I assume that there was an anticipation by the Company that the Commission would have a ruling on AMI during the test year; is that correct?

Is that a correct assumption?

MR. ROOSE: I think the assumption was looking at it at some time at the very end of this year or early next year to have a ruling on it, that's correct.

MR. HEMPLING: Was there no anticipation of additional employees, given the assumption that the Commission would rule, and I would assume the Company would hope that the Commission would rule favorable, and approve the program that had been proposed, is there no additional employees that the Company included in the test year based upon those assumptions?

MR. ROOSE: Beyond the six?

COMMISSIONER KONDO: Yes.

MR. ROOSE: At this time, in this -- for purposes of a rate case, those are not being requested. You know, those would be positions that would have been filled and added to the, you know, staffing outside of the test year and outside of the 2009 test year. It would have been 2010 and beyond.

COMMISSIONER KONDO: Thank you.

MR. HEMPLING: Just a few more questions on the AMI piece.

MR. ROOSE: Sure.

MR. HEMPLING: Does the change in schedule for the AMI proposal affect the activities of any HECO employees besides these six; for example, employees involved in system planning?

MR. ROOSE: To some degree, I think, you know, for example, let's take the issue of cyber security, which is a significant issue in the context of AMI, as well as really beyond AMI.

In any COM systems that would deal and interact with, you know, customer information as well as system operation, and cyber security is a major issue, you know, there's significant support and focusing on those issues in our IT area, for example.

And so they're very involved with us right now in taking a look at the cyber security issues. The only chances in the industry right now is, you know, standards are still in the development, sort of, fundamentally across the board for cyber security. There are proposed standards out there we're working through, as well as all the vendors are, kind of, focusing on those proposed standards, but there's more work to be done in that area; so, there is, for example, support and thorough IT staff in that area.

MR. HEMPLING: But that would be -- that would have to get done regardless of the schedule on the AMI proceeding?

MR. ROOSE: Absolutely, yes --

MR. HEMPLING: Yeah.

MR. ROOSE: -- that becomes fundamental, right.

MR. HEMPLING: What I'm asking is what are the change in schedule for the AMI program affects the workload of anybody else in the Company, either reducing or increasing?

MR. ROOSE: I think what some of the issues we're focusing on with smart grid there's other staff beyond the focus or the staff in the AMI division that are spending a lot of time on that effort.

I have some of my planners in the renewable energy planning division more specifically that have been hard at work in trying to secure position of funding and do through ARA funding, federal funding, to do other pilot efforts on AMI, you know, and other smart group that functions.

Again, one of the key things we're doing is we're trying to implement right now a roadmap for the Company on smart grid; so, we've assembled and have already issued an RFP for bids for that, and we've actually got bids back, and we're in the process of assessing the bids right now and will be awarded a contract shortly to develop that roadmap.

So there's staff that's outside of the AMI era that have actually been running point on that effort, a considerable amount of time there. And that's, again, I think, tied with the extension of time for the hearing. It's really allowed us an opportunity to really do that work and encode into our AMI program efforts.

MR. HEMPLING: So it's not like we have to reduce the revenue requirement because people have less to do while they're waiting around for the AMI case to start. Correct?

MR. ROOSE: Correct.

MR. HEMPLING: All right. Got it.

What about nonlabor costs?

Does the deferral in the AMI application case schedule affect any nonlabor costs that are in the proposed revenue requirement?

MR. ROOSE: I don't think I'm the best person on the witness stature of that, but I'll try at this point.

For nonlabor expenses, we do have some couple of different buckets of expenses. One is in the R&D type expenses.

Those expenses, at this point, we continue projecting has been what was set forth in the rate case proceeding. I believe the amount for this year, our expenses are targeted roughly in the 610,000, 611,000 area.

MR. HEMPLING: You're still going to need to spend that notwithstanding the change in the schedule?

That's all I'm asking.

MR. ROOSE: Correct.

MR. HEMPLING: Okay.

MR. ROOSE: That's correct.

MR. HEMPLING: These are what they call softball questions.

MR. ROOSE: Thank you.

MR. HEMPLING: That's what they call a trap. Okay?

So, well, I guess, I can go to Mr. Carver on this.

This is the question, just one application of the question that Mr. Roose referred to.

Well, I take it you're not -- Mr. Carver, you're not proposing that we take the costs that are related to the AMI activities that Mr. Roose just described, take the matter of the revenue requirement and deal with them some other day, right, you're satisfied with there being a regular requirement now?

MR. CARVER: That's correct. Part of my direct testimony was a recommendation that those costs be recovered through a CDI surcharge or an AMI recovery mechanism.

MR. HEMPLING: Are you now referring to labor or nonlabor?

MR. CARVER: Nonlabor, the nonlabor R&D cost --

MR. HEMPLING: Right.

MR. CARVER: -- that you were just talking with --

MR. HEMPLING: Yeah, I was talking about a number of things. But with respect to labor, you're okay with the way we're doing it right now?

MR. CARVER: Yes, I am.

MR. HEMPLING: You would not be okay with recovering labor costs during the surcharge?

That part I get.

MR. CARVER: That's correct, I agree with Mr. Brosch.

MR. HEMPLING: No, he agrees with you.

MR. CARVER: We agree with each other.

MR. HEMPLING: Okay. Excuse me, one second.

CHAIRMAN CALIBOSO: Before moving on to this next subtopic, let's take our morning 15-minute break.

We'll reconvene at five until eleven.

(Whereupon, at 10:41 a.m., a recess was taken, and the proceedings resumed at 10:58 a.m., this same day.)

CHAIRMAN CALIBOSO: Good morning.

This hearing is reconvened with Panel 2.

Mr. Hempling?

MR. HEMPLING: Yes, sir, Mr. Chairman.

Can we talk now about the fee and tariff order and its implications for the revenue requirement?

Who covers that subject?

MR. KIKUTA: That would be Mr. Seu.

MR. HEMPLING: Good morning, Mr. Seu.

MR. SEU: Good morning, Mr. Hempling.

MR. HEMPLING: Could you describe what changes in your Department's activities as staffing, et cetera, would occur as a result or will occur as a result of the Commission's order on fee and tariffs?

MR. SEU: Yes, in our response to PUC IR 186, we provided a description of the various activities that would be taken on by the different departments in HECO to implement this fee and tariff decision in order.

As explained in an IR response, numerous departments at HECO will be affected in No. 1 carrying forth the fee and tariff proceeding to its finish, you know, ultimately resulting in a fee and tariff that is available for implementation; and, then going on from that point actually administering the fee and tariff program.

So the activities in IR 186 cover both administrative, technical costing interconnection work, legal work, setting meters, a variety of different activities.

MR. HEMPLING: So is the order going to cause costs that were not anticipated in your rate case filing?

MR. SEU: Yes.

MR. HEMPLING: So how do you prepose to recover those costs?

MR. SEU: Well, I think any of the costs are actually going to be experienced in 2010 and beyond.

What is being experienced in the test year 2009, that is not currently reflected in HECO's rate case, are the additional costs that will be incurred presently as we, for example, bring on an independent observer to assist us with designing the FIT queueing process as we continue to work with our legal counsel for the filings, as we continue to work with the internal HECO resources to, for example, get ready for the technical studies that have to be done to further define reliability standards and interconnection, any interconnection modifications.

MR. HEMPLING: Wouldn't you have anticipated, as part of preparing the rate case filing, the likelihood that those costs would be incurred in 2009?

MR. SEU: We did assume certain fee and tariff costs. One of the biggest challenges, though, was what type of a fee and tariff would we actually see that would come out of the decision order. The timing of the fee and tariff was also difficult to predict. So we felt that it was reasonable, more reasonable on our part to actually be somewhat conservative in our assumptions.

Our proposed fee and tariff that we went forward with in that proceeding was for, I would call it, a more moderate program, and the decision in order is a little bit more aggressive than we had proposed; so, the fee and tariff costs that are in the rate case were more conservative.

MR. HEMPLING: What about the argument that you'll need fewer people to negotiate power purchase agreements because they'll be a fee and tariff that empowers and authorizes those agreements?

Is there an agreement that while there would a short-term increase in workload to get the tariff up and running, but over the longer run will need fewer positions for negotiations and administration of the contract.

MR. SEU: I don't think that actually is the case. It's not our expectation. What we are expecting to see is that the fee and tariff will better accommodate an influx of power purchase proposals for the projects that are identified as a fee and tariff eligible, but we will continue to see other proposals coming in to us on a bilateral negotiated basis.

We will continue to work to administer power purchase agreements that arise out of the competitive bidding framework; so, we anticipate that the end result of fee and tariff will actually be to -- it will be to help us manage a pretty significant increase in overpower purchase activity, but we don't expect that there will remain a state quo in terms of overall purchase activity.

MR. HEMPLING: You're not looking at the fee and tariff order as a work reducer?

MR. SEU: No.

MR. HEMPLING: So with respect to going forward in 2010 with respect to nonlabor expenses associated with fee and tariff administration, you'll be looking to the surcharge if approved by the Commission for recovery of those costs --

MR. SEU: I believe --

MR. HEMPLING: -- or I'll just ask it more generally.

How do you propose in the future to recover increase costs, nonlabor, that arise from the fee and tariff responsibilities?

MR. SEU: I believe that the answer, as you stated originally, was correct. Sort of looked towards some sort of a surcharge mechanism for recovery. I'm not sure if -- I believe that's the case.

MR. HEMPLING: And labor costs, if incremental to what are presently assumed in this rate case, you're still working that out with the CA as to whether to have surcharge recovery or some other form of recovery?

MR. SEU: Yeah, I don't know. I don't know exactly what -- you know, the base approach would be, of course, to try and assess what those additional labor costs are. Obviously, one mechanism is to wait until the next rate case proceeding to make the argument to recover those costs and rates.

MR. HEMPLING: Okay. And a few questions on PV Host.

Is that you, sir?

MR. SEU: Yes.

MR. HEMPLING: If I understand your application in the PV Host program, page 54, you don't have to grab it, it discusses the treatment of post-site lease payments; and, in response to an IR from us, IR-187, in response to the question, Were costs of the site leases for the PV Host program included in the proposed revenue requirement?

The answer was no.

Do you recall that?

MR. SEU: Yes.

MR. HEMPLING: So how are you expecting to recover the costs associated with leasing under the PV Host program?

MR. SEU: I think as we described in the PV Host application that once we get through the Commission's consideration of the application, that recovery of the costs associated for the program would be addressed in that proceeding. We did reference recovery through some sort of a surcharge mechanism as well in the application.

MR. HEMPLING: Do you have any feel for the magnitude of those costs under various assumptions of subscription to the program?

MR. SEU: I can't recall off the top of my head the exact figures, but I believe that we did try and calculate an estimated budget for the PV Host program as we proposed it and that's included in the PV Host application.

MR. HEMPLING: Okay. Who's lifeline, lifeline rated program?

Who handles that?

Mr. Hee, welcome.

Just try and get a feel for what's coming up next year in terms of cost recovery.

Mr. Hee, I think this would be straightforward.

In the lifeline rates application at pages 10 to 11, and I don't think you need to pull it out, the statement is that the Company's quote will evaluate the incremental labor and nonlabor costs to maintain and manage the lifeline rate program above the costs included in base rates one year after implementation.

What are these incremental labor and nonlabor costs to maintain and manage the program?

MR. HEE: The lifeline rate provides credence to customers who meet certain obligations -- certain eligibility that indicates that they are, in fact, low income. The program itself will need to have people to administer that program in order to check to see if, in fact, the documentation is correct and, in fact, they do meet the eligibility.

It also involves keeping track of the amount of lifeline rate credits that are being provided to customers for an identification to the Commission in that evaluation a year later.

The idea behind the lifeline rate was that in -- because we don't really know how many customers are really eligible until we have the lifeline rate implemented that the costs and the revenue impacts are difficult to determine.

MR. HEMPLING: So, as I understand it, in response to PUC IR 188, the Company stated that no base or incremental labor or nonlabor costs to administer the proposed lifeline program were included in the revenue requirements in their proposed Settlement Agreement or in the Company's response to the interim D&O, is that your understanding?

MR. HEE: Yes, that is my understanding and that is also correct. We did not include any hours for lifeline rate administration in the rate case.

MR. HEMPLING: Right. And then further in that same response the Company stated that it did include labor and nonlabor costs to develop and design the program?

MR. HEE: That is correct. That is what I had said previously. The senior rate analyst that was, I think, identified as position No. 11, did work on lifeline rate --

MR. HEMPLING: Okay.

MR. HEE: -- application and design.

MR. HEMPLING: So if the Commission approves the program, the lifeline rate program, the Company would be incurring administrative costs while rates approved in this rate case are in effect; is that right?

MR. HEE: Yes, we would very likely be incurring administration costs, but we did not include those in the rate case.

MR. HEMPLING: So would the Company just eat that or would they be proposing to create a regulatory asset reflecting those costs or what?

MR. HEE: I think we are still proposing to eat that portion of it until the year later where we would be able to identify for the Commission in a better -- with the actual information as to what those amounts were.

MR. HEMPLING: But we're not talking something large. It's somewhere between one and five employees, I would assume.

MR. HEE: We don't expect it to be large. That's why we agreed to not recover it in --

MR. HEMPLING: Okay.

MR. HEE: -- the rate case.

MR. HEMPLING: Excuse me, one second.

Okay, thank you, Mr. Hee. That's it for you.

And I have a question for the Consumer Advocate concerning the fee and tariff outside services cost. I guess I'm back to fee and tariffs.

This is a question based on CA -- Exhibit CA-S300. I told you these questions would be coming at random. So Exhibit CA-S300 is a spreadsheet entitled HCEI-related costs per Settlement Agreement.

MR. CARVER: Yes, that's correct.

MR. HEMPLING: So on line 11, Mr. Carver, you've got a line item called fee and tariff outside services.

Do you see that?

MR. CARVER: Yes, I do.

MR. HEMPLING: And then Footnote G. Footnote G, the settlement provides for a two-year amortization by the fee and tariff consulting costs. Right?

MR. CARVER: Yes, the net of the allocation to MECO and HELCO.

MR. HEMPLING: Right.

Is there any particular policy basis for the two-year amortization?

MR. CARVER: You'll note that there are several calculations on this page based upon a two-year amortization.

MR. HEMPLING: Yeah.

MR. CARVER: And it is premised on a two-year cycle for the Company's next rate case, as was discussed in the decoupling document.

MR. HEMPLING: Mr. Carver, what's -- are you familiar with the treatment in other jurisdictions generally about the recovery of predevelopment costs for capital projects that have not yet been approved by the Commission?

MR. CARVER: Generally, yes. I must say that this Commission is somewhat unique in terms of the requirements for seeking pre-approval of construction projects in excess of $2.5 million; so, a lot of what we see happened here is different than what we might see in other jurisdictions.

It's not uncommon elsewhere for those predevelopment costs to simply be recognized as operating expense, whether they're internal labor costs or some limited outside services consulting costs.

Once a project is identified as being a viable project that the Company is going to proceed with, at that time, they typically start capitalizing those planning and costs to identify the needed resources, timetables, that sort of thing.

MR. HEMPLING: In these other jurisdictions, you're referring to in an internal Company decision --

MR. CARVER: Yes.

MR. HEMPLING: -- as to whether a program really is going to have legs?

MR. CARVER: Yes, yes. And it's fairly uncommon except for certain unique areas for a Company to go to the Commission in other jurisdictions and seek Commission authorization of a particular project. That's somewhat different here.

MR. HEMPLING: So the dividing line that has become a matter of emphasis in these conversations and the negotiations is between a project or capital expense that its expenditure that's been approved or not yet approved by the Commission, the emphasis being placed on that dividing line as being relevant to recovery is not something that occurs in most of other jurisdictions, is what you're saying?

MR. CARVER: Yes, that's correct.

MR. HEMPLING: So what's the regulatory principle here that gets applied to these other jurisdictions, simply a question of whether it's prudent for the Company to look ahead and spend a certain amount of money thinking about the future and planning?

In other words, if you were going to recommend to this Commission that it would be less focused on whether a project has been, quote, approved, close quote, or not and more focused on something else, what would the relevant principles be?

MR. CARVER: That's a question of first impression that I hadn't really given much thought to for purposes of this proceeding. But, you know, typically, what I see in other jurisdictions is utilities seeking some regulatory feedback on large projects be it a new transmission line, a re-conductoring (sic) of a long transmission line, a new generating facility; particularly, when a new site is required, there may be needs to obtain Commission approval of an authority to site a generating asset at a new location versus an existing location.

I guess I'm having a little difficulty off the top of my head coming up with what criteria or suggestions we might have for the Commission to do things differently than they do them now.

MR. HEMPLING: Pardon me for being surprised by the answer. I though you spent a career looking at the reasonableness of utility expenditures. You must have some set of principles that you used in your own analysis, either you and/or Mr. Brosch as to whether a Company is spending dollars wisely on activities that may or may not produce a useful capital project at some point.

MR. CARVER: Well, one of these companies do look at various projects to determine whether it's a viable project, whether it's really needed. Those projects -- those activities occur on a recurring basis for that utility.

So other than looking at, you know, manpower requirements, looking at abnormal outside service contractor requests, that's really not analyzed in that fine degree of detail that your question implies.

MR. BROSCH: May I?

MR. CARVER: Sure.

MR. HEMPLING: Just so we're clear, maybe I'm not asking the question precisely. I didn't view it as a fine level of detail. I'm viewing it as in a particular era like the one we're in now where utilities feel some obligation to learn new things, to test new concepts, to explore ways of complying with new political decisions.

You're saying that most jurisdictions, they don't come for approval of a particular program. They spend the money and hope to get a recovery. Here we tend to rely on whether a particular project has been approved or not. And I'm asking what tools the Commission could use, based on your recommendation, for assessing reasonableness of expenditures like this.

Mr. Brosch?

MR. BROSCH: I guess I would first observe, in an effort to help here, that the default model, if there is one in other jurisdictions, is an expectation that the utility that has the franchise and the opportunity as well as an obligation to serve is generally managed by the regulator recognizing that management has the best tools at its disposal to figure out how to optimize resource assignments and meet that obligation.

And in the absence of a statutory mandate or a Commission rule that specifies when and how the utility needs to come in for pre-approval, management makes those resource allocation decisions; and, if there's a problem and someone notices, that becomes the subject of a more intensive review after the fact and potentially a regulatory disallowance.

Now that's not to say that in certain states the utilities haven't taken the initiative and observed, for instance, that there's an opportunity to engage in smart grid, or AMI, the current topic of great interest across the industry and initiate it on their own, either applications for Commission review and pre-approval to moderate the risks that come from those initiatives and/or an application for special costs recovery opportunities.

So it varies a lot depending on the circumstances. The smaller projects that are continuous in nature tend to fall within the responsibility of management and only bubbles to the surface and get regulatory scrutiny when there's an obvious problem or concern raised by someone.

MR. CARVER: I might also add that most jurisdictions that I have worked in over the years employ a historic test year, rather than a future or forecast test year; so, typically, in a rate case environment, we're looking at actual costs that have been expended as opposed to estimates of future costs that may or may not be expended.

So we tend to look in the historic environment whether certain cost elements, be it labor or nonlabor costs, appear to be out of line or whether there's a known project that has been problematic or troublesome and then delve into whether or not the costs of those activities are included in the historic test year numbers or not; and, if it's a viable project or not a viable project, it helps drive the degree of scrutiny that those costs may be subjective to in a rate case.

MR. HEMPLING: As long as I have you fellows on a roll here, can I ask you some questions back on the Big Wind expenditures?

Y'all been involved in looking at these costs, one of you gentlemen?

MR. BROSCH: Yes.

MR. HEMPLING: Okay. Can you compare in terms of the appropriateness several ways for predevelopment costs associated with Big Wind to be recovered; one, being just recording AFDUC now and allowing decapitalization of recovery of those costs later versus recovery and base rates versus recovery to a surcharge?

Do you have thoughts as to the best approach because it looks like this is going to be a stream of costs going forward.

Mr. Brosch?

MR. BROSCH: Yes, let me first, I guess, seek some clarification. We're talking about predevelopment costs, so I assume these are costs that the utility would be obligated to incur an expense on its books but-for some special accounting and separate costs recovery opportunities.

Is that -- am I on the right page with you?

MR. HEMPLING: Yes, if you mean by obligated, obligated by accounting practices as opposed to obligated by the Commission.

Is that what you meant by "obligated"?

MR. BROSCH: Yes. Unless there is some prescribed accounting deferral authorized by the Commission that would allow the Company to take a study cost; and, instead of expensing it, which would be the normal accounting, instead defer it for consideration in some other proceeding and some other cost recovery device like the CEI surcharge.

MR. HEMPLING: Yeah, I should have added deferral as one of the options.

So looking at the future stream of expenditures associated with Big Wind, do you have a recommendation as to how those expenditures ought to be treated?

MR. BROSCH: Yes, where individually significant, my recommendation is that those outside services costs, the nonlabor costs, should be deferred and considered for separate CEI surcharge recovery by the Commission; and, I talk about that, generally, at pages 28 to 38 of CAT-1, where I recommend some procedures and definitions and safeguards for that process.

MR. HEMPLING: Why not just to include them in rates as part of the regular company activity of preparing for the future?

MR. BROSCH: A great question and one that I tried to wrestle with a bit in that testimony. I think, first of all, it's difficult to quantify these individual significant large one-time activities and costs.

So if you are trying to set base rates at a representative ongoing level of expenditure, you wouldn't necessarily want to put all of those costs in a single test year and bake them into rates that are going to stay in place potentially for two or more years.

Secondly, you ask yourself about the incentives that you provide to management. And if you were to seek to bake in to rates, for instance, a two-year amortization, you're telling the utility they have X number of dollars to spend per year to do these things that are being desirable by the Commission.

What you may instead want to encourage the utility to do is spend all that is necessary, even if we didn't know what that amount is today, to get the job done quickly and efficiently all subject to review with the potential for recovery outside of base rates, so that you can monitor that, segregate those costs and determine whether they are eligible for surcharge recovery.

MR. HEMPLING: Well, excuse me. What incentive is created by telling the Company, spend all you want and we'll let you know afterwards whether you spent too much?

What incentive is created?

MR. BROSCH: The incentive that you create is really the avoidance of the distance in it for baking a fixed amount in to base rates and telling utility management they only have that much to spend; and, clearly, the flip side of that, is when you create a preferential cost recovery device, a surcharge recovery opportunity, you shift risks to ratepayers and you open the door to potential abuse, which is why you need to rigorously define what costs are eligible and tell the utility how you're going to review those costs and consider them for costs recovery.

MR. HEMPLING: Well, I know is that I remember my first month in private practice, my own law practice, in 1990, the client actually said, Spend what you want and the hours, and we'll tell you at the end of the month whether you got it right. I lost 3,000 bucks that month. Of course, I made 15,000, but that was the first of many occasions when I found that any time a client said spend what it takes, and we'll let you know afterwards, that it was a losing proposition financially, it was always a gain in terms reputationally.

But in terms if you were running the company is that the life you'd like to lead where you wait until you find out afterwards whether you and the Commission had the same idea about the scope of activities?

MR. BROSCH: If I were working for the company looking at this CEI surcharge recovery mechanism, I would be just as concerned about defining the mechanism. I might be more interested in the liberal definitions of the costs that I might seek recovery of later, but I would be concerned about how those definitions were put in place and what opportunity I had to bring those costs before the Commission for consideration and ultimately recovery.

And if there was a concern about spending exceeding -- its actual spending exceeding intended levels, you might seek -- the management might seek some guidance from the Commission as to what cost expectations there are on both sides of the table; but, at end of the day, if the intent is to expedite a cost-effective study of the renewable opportunities that we have here, the base rate recovery may not be the best way to do that because that sends a signal that you've got have X dollars to spend and anything over that is out of earnings.

MR. HEMPLING: What about a combination?

I mean, don't you see a situation where there should be a base level of activity if the company directed toward innovation and learning curve and experimentation and then, in addition to that base level surcharge, things that go beyond rather than you and the base level, the way you do, which is a cap on expenditures?

MR. BROSCH: Well, let me take a couple of swings at that, and you can tell me if I've got it or not.

There is a base level and you talked with various Company witnesses this morning about, What do we do with staffing? And I interpreted most of the responses I heard to be we tried to address a base load level of work, even though the activity is changed week by week and year by year, by staffing up in a way to provide an opportunity to do an efficient amount of that internally and then where we don't get the job done, we go outside and supplement our resources with contractor assistance.

MR. HEMPLING: Well, except, if I may just interject, the base level is people working overtime.

MR. BROSCH: Sometimes that becomes the base. That's right.

MR. HEMPLING: All right. Please continue.

MR. BROSCH: So if you want to specify where costs recovery through surcharge, what I call preferential regulatory treatment, is to be afforded, the balancing act is clear definitions so that the process can be understood and applied first by the company as it occurs those costs, defers them and seeks recovery, and then by the Commission and the Consumer Advocate in looking at those applications with a clear understanding of what was intended; and, then a record of actual incurred costs to know whether the intentions were met and whether the costs appear reasonable or not.

The balancing is usually these surcharge devices are intended to be almost self-administering, in that the filings usually aren't intended to precipitate protracted discovery period and a lot analysis and prefile direct testimony.

So you want the definitions to be simple, the filings to be relatively straightforward and approval to not take a great deal of time; so, there's this tension between definitional complexity and administrative workability.

MR. HEMPLING: Are you familiar with the three-year amortization period for Big Wind studies that the Company proposed in its Big Wind studies docket?

MR. BROSCH: I'd have to say, no, I'm not familiar with that.

MR. HEMPLING: Who in the Company is responsible for that Big Wind amortization on a three-year basis?

Mr. Roose?

Ms. Nanbu?

MS. NANBU: I believe the three-year amortization was the alternative position in the Big Wind study.

MR. HEMPLING: Yes.

MS. NANBU: The primary position for the Company was to have the costs deferred and recovered through the surcharge mechanism. However, the Commission did not support the surcharge mechanism and the Company proposed that the costs that have been incurred, beginning January 1st, 2009, and going forward, be allowed to be deferred and insurance for amortization through the next rate case for over a three-year period.

The three-year period was based on assuming the next rate case was in 2011 under the decoupling mechanism with a three-year cycle for rate cases and the decoupling proceeding.

MR. HEMPLING: Thank you for that clarification.

I don't know if this next question goes to you, Ms. Nanbu, or Mr. Roose, but the discussion I just had with Mr. Brosch about the incentives to the Company varying between base rate case recovery versus a surcharge, any thoughts as somebody who runs the department as to which regime works best for you?

MR. ROOSE: I think for purposes of the studies in this case, again, with, sort of, the -- we're doing a lot of work on renewables right now, and there's a lot of different forms and proposals and projects in which, you know, we want to advance the amount of renewables we have in our system; but, in the case of the Big Wind efforts, in particular, they are, I would say, somewhat unique in that, you know, again the magnitude and the complexity of the issues are about board with pursuit of an initiative of that scale.

I think, in my mind, it seemed to fit pretty well with a surcharge type mechanism in that, you know, again, those costs and those studies are not typical of the general planning that we're going to be doing; although, again, the planning, as you move toward to the future with renewables, is changing on the type of work. That it's much more complex and requires a lot more analytics apparently than before.

For the Big Wind, in particular, I do think they're somewhat unique in that respect, and, in my mind, at least a surcharge mechanism seems to fit with that particular project effort.

MR. HEMPLING: I'm wondering if we're communicating about the same issue. I understand the reason why the Company prefers a surcharge is because it gets the recovery without having to do a general rate case and encounter all of the procedural and personal efforts that that entails; but, I'm asking about the management and certainty associated with quest recovery.

How does it feel running a department to incur a lot of costs and not know until you're done whether the Commission in the surcharge context is going to allow the recovery, because you understand the surcharge is not just a cost recovery mechanism?

It's like a rate case, an opportunity for the Commission to review the reasonableness of the costs.

So I wanted to get a better understanding, from your perspective, as a budget manager, which life you like to lead, a life where you know what you're going to get recovery of or a life where you don't know?

MR. ROOSE: I think our approach in that application requesting a surcharge recovery is looking to get a determination by the Commission of the reasonableness of what we're proposing to do in those studies during the scope and the cost of those upfront in this -- in that proceeding in of itself.

Now we would have to come back to the Commission and file a report that explains that we did what we represented we were going to do and we conducted those studies and we, you know, here's the actual costs for that effort; but, the effort would be again focused on trying to get, I guess, an indication from the Commission in its initial decision and order in a docket that indicates that what we put forward in terms of scope of those studies, the costs of those studies is reasonable and prudent, which then would give us the level of assurance we need to execute those studies.

I mean, the magnitude of those costs, yes, as a manager of the department, if there's complete uncertainty on our recovery of that to some point after the expense of that money, that's a major challenge for the Company to be able to bear that risk. I don't know if that's a risk at the end of day given the total management of the dollars that the Company could actually, in fact, bear.

MR. HEMPLING: So the scenario is actually clear, thanks to you, the one I was discussing with Mr. Brosch.

What you're anticipating is that the surcharge device is there for recovery of costs between rate cases, but what you're going to be doing is coming to the Commission and asking for approval of a budget, in effect, before you incur those costs and then the device for recovery in that budget is going to be the surcharge.

So what your describing the situation where the uncertainty is removed because the Commission is signing off on your expenditures ahead of time. Right?

MR. ROOSE: That is the intent; of course, subject then to a final cost reporting in which we would, again, compare that with what we had represented; and, if at that point, if, you know, the Commission would have that view of the actual expenses versus what was represented upfront with what they actually approved.

MR. HEMPLING: So the Commission's approval of a cost level becomes a forum, right, because if you end up incurring higher costs than what was proposed, you're not promising to absorb those, you're retaining an opportunity to come in and say some of these things costs more than we expected, like the matter of the $55 million concerning the CT-1 unit. Right?

Do I understand your approval in the Big Wing case correctly?

MR. ROOSE: I think in regards to --

MR. HEMPLING: Yes?

MR. ROOSE: No.

MR. HEMPLING: Okay, go ahead.

MR. ROOSE: I think in regards to the costs that were put in part in the applications, the scope of that work, you know, we're committed to complete that work. I think we have enough definition and understanding of what that work will be in both in terms of the scope and costs and effort that we will maintain our expenses to that level that we're making -- that we represented in the application. In other words, it's more of a cap in that case for those costs.

Now if in the course of that effort we identify -- in course of the study efforts we identify studies that were just not foreseen and were not identified within the scope of work that was set forth in the application, I think we would have to come back to the Commission and seek approval for those costs recoveries; but, relative to the scope set forward and the budgets we've estimated, we are committed to maintaining that level of expense in terms of what we're requesting the recovery for.

MR. HEMPLING: Mr. Brosch, what do you think of that approach?

Do you think that approach sends or creates the right incentives within the Company both to be innovative and experimental but also to be cost-conscious?

MR. BROSCH: Well, let me first explain why I didn't ask (sic) your first question on this line, and that was because it wasn't clear to me what you were talking about, the definition of costs and surcharge recovery in the context of the rate case or some other dockets that are going on.

And I have to say the testimony that I referenced you to in CAT-1 was strictly from the perspective of the rate case with an appreciation that there are these other dockets and numerous other proposals before the Commission that Mr. Carter and I are not close to; and, for that reason, I tried to put forward some generalized recommendations on how to police this whole environment where you're building a number of separate surcharge recovery opportunities that can be problematic.

All of that said, clearly what the Commission chooses to do in authorizing a surcharge and setting a budget is important to the signals sent to management.

One alternative might be for the Commission to say, we understand your application on Big Wind studies to be this scope of work at this estimated costs, and the Commission could elect to say a number of things, that budget is approved, anything over that, will never be eligible for surcharge recovery, take it out of shareholder earnings between rate cases; or, they might say, it's approved with some 110 or 120 percent contingency above that; or, it could say if the budget changes come in with the revised application, so we can think about it and talk to it.

It all is very issue-specific in terms of what signals the Commission wants to send, when they want to hear back from the utility, and what risks want to be offset for the utility in advance by approving a budget, for example; or, electing not to do that.

MR. HEMPLING: Could you answer my question, though, which is with respect to the regime that Mr. Roose just described?

What do you think about the incentive that creates for management?

Do you find them to be appropriate or inappropriate?

MR. BROSCH: Well, I think it's certainly advantageous to management to have pre-approval of any particular scope of work.

MR. HEMPLING: I know that.

MR. BROSCH: Yeah.

MR. HEMPLING: I'm asking what you think about the incentives to the Company.

MR. BROSCH: I think the incentives to the Company are encouraging them to go forward and do the promised work at the projected costs, if there's pre-approval; and, if the interest of the Commission is in expediting this work and allaying management concern over cost recovery, that might be the right answer.

MR. HEMPLING: I have some questions about biofuel expenditures.

Who is that?

It's referring -- the reference is page 21 of Exhibit 1 to the Settlement Agreement. I'm referring to the 50,000 for biofuel agricultural property search expense and the 649,000 for the biofuel co-firing project.

MR. KIKUTA: Mr. Hempling, Mr. Tamashiro would be able to respond to the questions.

I would note that Mr. Tamashiro has not yet been sworn in as a panelist.

CHAIRMAN CALIBOSO: Please, stand Mr. Tamashiro.

Do you solemnly swear that the testimony you're about to give will be the truth, the whole truth, and nothing but the truth?

MR. TAMASHIRO: I do.

CHAIRMAN CALIBOSO: Thank you.

MR. HEMPLING: Good morning, sir.

MR. TAMASHIRO: Good morning.

MR. HEMPLING: How are you today?

MR. TAMASHIRO: Fine. Thanks.

MR. HEMPLING: Sir, you're familiar with this aspect of the settlement which includes R&D cost of 50,000 for the biofuel agriculture crop research expenses and the 6049,000 for the biofuel and co-firing project expenses?

MR. TAMASHIRO: Yes.

MR. HEMPLING: Okay. And what are those activities? Could you describe them?

MR. TAMASHIRO: The biofuel project, it's a projet in which we are incurring research and development costs in order to see if whether our plans can burn biofuels.

MR. HEMPLING: So --

MR. TAMASHIRO: The --

MR. HEMPLING: I'm sorry, go ahead, sir.

MR. TAMASHIRO: -- projects are described in detail in my direct testimony.

MR. HEMPLING: So with respect to the period when the rates will be in effect, what was the expenditure levels that you expect?

MR. TAMASHIRO: I believe we requested in the test year was 649 --

MR. HEMPLING: Wait. Right, I got it. I missed the question here. One second.

What were the expenses, do you know, for 2007, 2008 and 2009?

MR. TAMASHIRO: You're referring to the full-time biofuel project?

MR. HEMPLING: Yes.

MR. TAMASHIRO: We disclosed that cost in an IR response.

MR. HEMPLING: I just figured you'd have it faster than I would.

MR. TAMASHIRO: 164. I'm sorry, that's Company response to 483.

MR. HEMPLING: To what?

MR. TAMASHIRO: 483.

MR. HEMPLING: What's the answer?

MR. TAMASHIRO: For 2000, the Company incurred $100,000.

MR. HEMPLING: Which year?

MR. TAMASHIRO: 2007.

MR. HEMPLING: Yep.

MR. TAMASHIRO: 2008 was 143,000.

MR. HEMPLING: Lower, please, yeah.

MR. TAMASHIRO: And 2009 was 649,000 for a total of 892,000 to date.

MR. HEMPLING: And that was for the biofuel of co-firing project expenses?

MR. TAMASHIRO: That's correct.

MR. HEMPLING: And what about the biofuel agriculture property research expenses?

MR. TAMASHIRO: In 2007, we incurred $52,000; in 2008, we incurred 52,000.

MR. HEMPLING: And '09?

MR. TAMASHIRO: In the test year, we have 50,000.

MR. HEMPLING: So do you have a feel with respect to these two categories of expenditures what they will be for 2010 and 2011?

MR. TAMASHIRO: I don't know what the budget amounts for these projects are in 2010 and 2011. However, if I could just point out that R&D is an ongoing expense of the Company, and we feel that these costs should be recoverable commensurate with the expenses that incurred in the previous years, which if you look at the Attachment 1 to the final settlement, the HECO T-14, it is somewhat consistent.

MR. HEMPLING: What was that reference?

MR. TAMASHIRO: Attachment 1, HECO T-14 final settlement.

MR. HEMPLING: Yeah.

MR. TAMASHIRO: Where it shows the actuals from 2004 to 2008, the expenditures of the Company had been somewhat consistent.

MR. HEMPLING: Is the Company carrying out this research in conjunction with any other utilities, say, on the mainland or around the world; or, are you, by yourselves, in researching the biofuel?

MR. TAMASHIRO: I'm not exactly sure if we are engaging with other utilities. We do engage consultants for helping us with these R&D projects.

MR. HEMPLING: What's your specific role with respect to this research?

MR. TAMASHIRO: I am the R&D witness in this rate case.

MR. HEMPLING: Right. But within the Company --

MR. TAMASHIRO: Oh.

MR. HEMPLING: -- what is your management responsibility with respect to biofuel research?

MR. TAMASHIRO: I'm the Director of Corporate and Property Accounting.

MR. HEMPLING: Does that mean that you don't have any role with respect to the research itself?

MR. TAMASHIRO: No; maybe, that's correct.

MR. SEU: Mr. Hempling, Mr. Seu here. Perhaps I can answer and try to --

MR. HEMPLING: Yeah.

MR. SEU: -- address your question.

MR. HEMPLING: It's within your domain?

MR. SEU: Yes.

MR. HEMPLING: In your current position, which is?

MR. SEU: I'm Manager of Resource Acquisition.

One of the divisions in my department is what we call our Technology Division and the R&D expense for the support of the biofuel research, the roughly $50,000 per year expense, comes under my Technology Division.

MR. HEMPLING: Yes. So the question is, Is this research that's being conducted by the Company in isolation from other R&D on biofuels around the country and the world or are there economies to scale that you're trying to realize by cooperating with other utilities?

MR. SEU: I would say all of our research is in collaboration with other efforts going on across the country --

MR. HEMPLING: So in this context --

MR. SEU: -- as far as we are monitoring other research projects. However, specifically, as we are supporting, for example, the Hawaii Agriculture Research Center for the University of Hawaii in Hilo, the College of

Tropical Agriculture, this specific focus is a lot of their research is to see what types of biofuel crops would be best produced and grown here in Hawaii; so, there is a -- probably it is somewhat unique to the Hawaii situation.

We are providing the support so that these different research organizations in Hawaii can address anything from what the types of soil in Hawaii are most suitable for specific crops, what types of water is required, and so forth.

MR. HEMPLING: With respect to the non-Hawaii specific aspects to the research, what are some of the other organizations outside of Hawaii that the Company is collaborating with?

MR. SEU: Well, we were collaborating with various entities that are interested to see if they can bring in different types of crops, for example, and make a goal of it here in Hawaii. These tend to be, for example, firms that have a specific biofuel interest. For example, we may be dealing with an entity that is really trying to push the development of algae-based biofuels; and, so they will have research activities happening on the mainland, but when they come here to Hawaii, because the nature of algae is very site-specific in many cases, then what they are trying to do is apply their overall approach but apply it here in Hawaii.

MR. HEMPLING: Okay.

MR. SEU: So it is a -- I would say it's fair to say it's a mixture of trying to apply general biofuel research activities but as they need to be applied specifically here in a Hawaii situation.

MR. HEMPLING: Are you collaborating with any other utilities around the mainland on biofuels research?

MR. SEU: Well, to the extent that we are conducting research with some co-funding with our membership in Electric Power Research Institute, or EPRI, as we call it, we make our research project information available to other utilities. We also, by bringing EPRI into the equation, are able to hopefully benefit from what other utilities in the mainland are doing.

MR. HEMPLING: But no specific utility you can mention?

MR. SEU: Well, each -- the way that EPRI manages these different research projects is they will tend to work with the utilities; for example, HECO, and define a scope of work for the research project or activity. And EPRI will then seek from other utilities whether there is an interest in co-funding these research projects.

There are opportunities for us also to participate in research -- EPRI-driven research projects that other utilities are sponsoring. We are aware, for example, that PG&E is interested in trying to support a research project on biofuels and because, again, it happens to be very site-specific in terms what of can be grown here or produced here in Hawaii versus California. We may or may not choose to participate in it.

MR. HEMPLING: Okay. Thank you, sir.

MR. GIOVANNI: Yeah, I just wanted to add relative to the biofuel co-firing project, that that project does set us apart and is unique into -- in terms of how far we are looking to push the research.

We did have a collaboration with the New York Power Authority in EPRI. In their experimentation of this type, which was conducted about three years ago; and, in that instance, they limited their investigation to 20 percent biofueling in a blend with the heavy residual fuel oil.

The case of this project we have found no other utility experience, it pushed it any farther than that. Our interest is really to ask -- answer the question how far is it reasonable to use biofuels in a safe and reliable way within our existing infrastructure and our existing power plants.

We are working collaboratively with the Electric Power Research Institute in defining and scoping this project, and they are the organization that is making our work known to other utilities; and, as that project comes to fruition and as it's come closer to fruition, we've heard more inquiries from other utilities. But, at this point in time, the project does not have any other formal utility collaboration.

MR. HEMPLING: Thank you.

I have two short areas before lunch. One is on temporary employees.

COMMISSIONER KONDO: Mr. Hempling, before we leave this area could I ask some questions?

I have a question about the Big Wind studies. I don't know if it amounts to very much, but it's assuming that the Commission does not approve the REIS recharge mechanism, how is the Company proposing to recovery the costs of the Big Wind study?

MS. NANBU: I believe in the application for the Big Wind study we said either in the REIP surcharge or a Big Wind surcharge mechanism to recover those costs.

COMMISSIONER KONDO: Assuming those surcharge mechanisms to recover those costs, how would the Company recover those costs?

MS. NANBU: I guess that was our alternative proposal was the Company asked the Commission to allow the Company to defer those costs and then advertise those costs in the next rate case over the next three-year period. Under that proposal, we do ask that we are allowed to include the deferred costs in rate base with the fact that we are incurring the financing of those costs and to include it in rate base so that we could recover the financing of those costs.

COMMISSIONER KONDO: And that would be to include the costs in rate base now, in this rate case; or, that's in the future?

MS. NANBU: It would be in the next -- in the next rate case, yeah. I mean, we're not proposing to include that in this rate -- in the rate base at this time. It wouldn't be included in -- as we get that mechanism for deferral approved.

On our accounting records, we would record that as a deferred cost; and, in our calculations going forward, as to our ratemaking returns, it would be included in the rate bases.

COMMISSIONER KONDO: Thank you.

I have a question, Mr. Brosch, or Mr. Carver.

At what point, assuming collection through an REIS type of mechanism, or through the mechanism that Ms. Nanbu described in the next rate case, at what point does the Commission look to see whether or not those costs are reasonably incurred; in other words, that the Commission was on board with Big Wind and that was the area that the Commission would have suggested the Company investigating through our review?

MR. BROSCH: The Commission could elect, in this rate case, based on Mr. Giovanni's update, evidence, and what you've heard here from the other witnesses, could elect to anticipate no surcharge recovery and build some amount in the base rates; or, alternatively, the Commission could say HECO was authorized to defer those costs and bring them to us for consideration in the next rate case, which I understood Ms. Nanbu to suggest as an alternative.

Those would each be non-surcharge recovery approaches. If you wanted to address them in surcharge style, you could do so by defining or referring to the described work and approving it in advance, if you were comfortable with it, inviting the Company to go forward into further costs and bring to you some calculation of a surcharge that would recover those costs.

COMMISSIONER KONDO: Your first part of the question or your part of the answer talked about putting it in base rates in this rate case. That appears, to me, to assume that the Commission is okay with the project or with expending a large sum of money towards investigating how this project can come to the island.

MR. CARVER: Yes, you could explicitly approve the projects that are described in Mr. Giovanni's update and say we're on board with those. We think those are reasonable; or, alternatively, you could say, We look at the overall expenses of the utility and we would prefer that HECO proceed at its own risk and do whatever studies are necessary to discharge the responsibility set forth in the HCEI agreement and come in later and tell us what those costs were and explain why they were reasonable.

COMMISSIONER KONDO: I mean, putting the agreement aside, it seems, to me, given the size of the expenditure for Big Wind studies, that the Company has the burden to establish that, in fact, the expenditure as well as the project is reasonable, is that correct or is that incorrect?

MR. CARVER: No, I believe that's correct. And I understood Mr. Giovanni's update to be the Company's effort to meet that obligation and, ultimately, of course, you'll decide whether they've done that or not; and, when and how they might have another opportunity to do that, if there's any authority given to defer those costs should they not be included in rate recovery now.

COMMISSIONER KONDO: All right, thank you.

I have another question, and I'm sorry that I wasn't fast enough to jump in when Mr. Hempling was moving, but I have another question about HCI-related positions, and I'm not sure if it's Ms. Nanbu, again, but maybe you can correct my understanding.

From the testimony that I've heard, it's my impression that there were no new positions created specifically for HCI-related mechanisms; is that correct?

Because it seemed, to me, from the testimony that people were saying that there were existing positions where some of the responsibilities now was being HCI-related, but that there are no new HCI positions created; is that correct?

Is that understanding correct?

And, I guess, the additional part of that would be no new positions created where somebody, who was in an existing position, switched over to an HCI-related position, and the position that was created was to fill that person's existing position?

MR. HEE: In my area -- my name is Alan.

In my area in the Energy Services Department, there were two positions that were included amongst the 13. They were the director of special projects and they were the senior rate analyst. Both of them have more than 50 percent of their activity on what we had called HCI-projects, lifeline, PV Host, AMI, those sorts.

Nevertheless, as we indicated in the response to PUC IR 118, they also have activities in rate case, DSM surcharge and so forth.

Furthermore, the proportion of work --

COMMISSIONER KONDO: I understood the discussion about the employees that were listed on the chart that Mr. Hempling went through.

Besides those employees, excluding those 13, were there any employees that the Company brought on that are not listed on that chart that would create HCI-related purchases;

or, where the Company brought on people to fill roles that someone else now moved to an HCI-related position?

MR. ALM: Commissioner Kondo, no, there are no other positions.

COMMISSIONER KONDO: Thank you. That's all.

MR. HEMPLING: Who can I ask a few questions about the 14 temps?

MR. ALM: That would be Mr. Yamamoto and Ms. Chiogioji.

MR. HEMPLING: Good morning.

MR. YAMAMOTO: Good morning.

MR. HEMPLING: What's your position with the Company, sir?

MR. YAMAMOTO: I'm the manager of customer service. I'm Darren Yamamoto.

MR. HEMPLING: Yes, thank you.

I've got this HECO head count of 1,618 employees who are covered by group insurance plan.

So are you familiar with that figure?

MR. YOUNG: Yes, I am.

MR. HEMPLING: And are you familiar with the 14 temporary employees that the testimony has referenced?

MR. YAMAMOTO: Yes, I am.

MR. HEMPLING: Are the 14 included within the 1,618?

MR. YAMAMOTO: Yes, it is.

MR. HEMPLING: Were the costs of the 14 temporary employees included in the interim rates?

MR. YAMAMOTO: Yes, it was.

MR. HEMPLING: Are these temps still employed?

MR. YAMAMOTO: Out of 14 temps, we released eight so only six remain.

MR. HEMPLING: And what capacity do they remain?

MR. YAMAMOTO: They remain as temporary workers and they're replacing the regular employees that are on the project contained on CIS project.

MR. HEMPLING: That was a saint. Thank you.

And, sir, the number of employees used to determine medical plan costs in the test year, are you familiar with that subject?

MR. YAMAMOTO: No, I'm not.

MR. HEMPLING: Who is?

MS. NANBU: I believe the appropriate witness would be Ms. Judy Price. She is scheduled --

MR. KIKUTA: She will be a panelist on Panel 3.

MR. HEMPLING: That's this afternoon?

MR. KIKUTA: Yes.

MR. HEMPLING: Okay. It's just three questions, so we can deal with that when she comes, and they were my last three questions for the morning.

Excuse me, one second.

(Whereupon, Mr. Hempling briefly confers with the Commission.)

COMMISSIONER KONDO: Well, I have some questions about employee accounting. I'm not sure who the witness is.

For the test year, does the Company intend to include or recover any employees labor costs during the surcharges and not the base rate?

MS. NANBU: And, sir, Commissioner, can you repeat your question?

COMMISSIONER KONDO: I'm curious for the test year.

Does the Company intend to recover any employee costs through any surcharges rather than through base rates?

MS. NANBU: No, they are not.

COMMISSIONER KONDO: I think this question is probably for Mr. Hee but maybe it's you, Ms. Nanbu.

I was looking through the customer solutions section, which I understand is Mr. Hee's section.

MS. CHIOGIOJI: Yes, it is.

COMMISSIONER KONDO: And I understood that, historically, there have been some employee labor expenses that have been passed through, through a surcharge; is that correct?

MR. HEE: Commissioner, that is correct, historically.

COMMISSIONER KONDO: And how many employees would it have been for 2008?

MR. HEE: It would have been six, regular HECO employees who's labor costs were recovered through the DSM surcharge.

COMMISSIONER KONDO: And now where did those six employees go?

MR. HEE: As a result of the transfer of the energy efficiency programs to the administrator, five of those employees are working for other departments and not for energy efficiency programs.

COMMISSIONER KONDO: Were those vacant positions that they moved to?

MR. HEE: Yes, they were vacant positions that they moved to. And one of the positions is the CEP, the Customer Efficiency Programs analyst who we are proposing to move into base rates in this rate case.

COMMISSIONER KONDO: I struggled just logically to understand how the employee count in your department did not go down, given the level of responsibility that was transferred to Hawaiian Energy or SCIC, is that the reason because the employees that worked on the energy efficiency matters were the labor expenses recovered through the surcharge and those employees are no longer with your department?

MR. HEE: In fact, I think the number of people in my department has decreased as a result of those employees being moved to other departments. And, furthermore, there were a certain number of -- well, nonemployees, contract people, who are not included in the account, that are no longer there in my department as well.

COMMISSIONER KONDO: When you say the employee count in your department has decreased, that would be the employee count on your org chart, not your employee count for purposes of base rates, is that correct, because you're proposing to add another employee that would be recovered through base rates?

MS. CHIOGIOJI: Commissioner, can I ask you to repeat that question?

COMMISSIONER KONDO: Sure. I guess when Mr. Hee said that his employee account had gone down, my question was, Is that reflected in the base rates or is that reflected in the org chart, because it's my understanding that the proposal is to add an employee to Mr. Hee's department for purposes of recovering that employee's labor expense and base rates?

MS. CHIOGIOJI: Mr. Hee's contract employees are not reflected in the counts. We don't include them in our counts, and our employee counts also reflect the removal of employees whose costs are recovered through the DSM surcharge.

COMMISSIONER KONDO: Yeah, I understood from

Mr. Hee's testimony earlier that in the past, this 2008 year, there were six employees, the labor expense had been recovered through the DSM surcharge. Five of them had been moved to other departments, and one of them is now being proposed -- his labor costs are not being proposed to be recovered through base rates, but I do understand there to be any other reduction, the employees from Mr. Hee's department.

So my question was, The employee count for Mr. Hee's department, it increased for the purposes of recovery base rates but decreased on the org chart; is that right?

You're seeking to recover the costs of one more employee in Mr. Hee's department --

MS. CHIOGIOJI: That's correct.

COMMISSIONER KONDO: -- yet the net result of the shifting of people within the Company has been minus five; is that correct.

MR. HEE: If I could ask if I could refer to HECO S1001.

COMMISSIONER KONDO: I'm sorry, I don't have a pamphlet. I'm sorry, I actually do have it. I'm sorry. Thank you.

MR. HEE: Do you have that?

COMMISSIONER KONDO: I have it.

MR. HEE: So HECO S1001 looks at the employee count for the customer solutions area, and the customer solutions area includes the area in which the DSM employees are included. That includes other areas as well.

So I'd like to take a look at the first, the top table, in which you take a look at -- we call it the settlement 2007 test year average, which includes those six employees.

You'll see that under the bottom middle of that table there's a division that's called Customer Efficiency Programs Division. The settlement 2007 test year average includes those six employees in this particular count, so that count is eleven. Our updated 2009 test year average is six. You remove the six DSM employees and added one back, which leaves us with six; so, in that particular case, there's the decrease from eleven to six.

Does that answer that question -- your question?

COMMISSIONER KONDO: The answer to my question actually is, yes, right, because the five positions that have been moved to another department within the Company, they're no longer reflected here; but, the one position of the six that previously was recovered through the surcharge is not recovered or being proposed to be recovered through base rates. Right?

MR. HEE: Yes, that's correct.

COMMISSIONER KONDO: Okay. Now that was my question.

MR. HEE: Okay.

COMMISSIONER KONDO: Thank you.

MR. HEE: Mm-hmm.

COMMISSIONER KONDO: I have some questions about CT-1, employees -- employee count related to CT-1.

Mr. Hempling, would you like to defer this until a later discussion?

(Whereupon, Mr. Hempling briefly confers with the Committee.)

COMMISSIONER KONDO: Mr. Giovanni, is this you?

MR. GIOVANNI: Yes.

COMMISSIONER KONDO: Are there any CT-1 positions included in the interim?

MR. GIOVANNI: I believe they were removed?

MS. NANBU: Yes, they were removed in determining the interim calculation.

COMMISSIONER KONDO: If the Commission were to allow CT-1 or determine CT-1 is used and useful, how many more employees or what is the results of that decision?

How does that affect the employee count?

I guess I'll stick with the employee count because that's the section of our discussion.

MR. GIOVANNI: We've added 15 permanent positions to -- we've added 15 permanent positions to CT-1. Eight of them are in maintenance and six are in operations; and, they have been -- well, they're currently on staff. And if we -- your determination -- could you repeat your question?

I want to get it precisely, but we're not planning to add any more positions.

COMMISSIONER KONDO: And in the 15 positions that you're talking about, those are 15 that were included in the initial filing?

MR. GIOVANNI: That's correct.

COMMISSIONER KONDO: If the Company -- I'm sorry, the Commission disallows CT-1, what is the staffing change that would occur in the Company's perspective?

And, I guess, what I mean by that is if CT-1 is determined not to be used and useful by the Commission, are there additional personnel that are shifted to different generators to maintain the system; or, is that being done now and there's no change in staffing, it's just minus the 15 people?

MR. GIOVANNI: Well, that's a hypothetical, and we'd have to attend to it, but I can tell you that the operating personnel that are at CT-1 today have all come from the ranks of operators at our other power plants. They all transferred.

I could also tell you that the maintenance positions that are currently in place, we currently have vacancies in our other power plants or similar positions; so, we have to evaluate the situation at the time, but we do have a need for people with that experience and skills.

COMMISSIONER KONDO: Well, I can appreciate the challenge that you have; but, for purposes of the rate case, what would be the impact?

I understand you have to evaluate to determine how you actually run the system, but what's the impact for purposes of a rate case if the Commission continues to disallow CT-1 --

MR. GIOVANNI: Well --

COMMISSIONER KONDO: -- if there's --

MR. GIOVANNI: Yeah, if we -- if -- and it's a hypothetical, but if we absorb those, the maintenance people, where we currently have vacancies, the consequence would be that we would reduce our uses of supplemental labor or use of overtime that we are currently using to get the job done in those areas.

In the case of operators, if those operators are transferred back, because we do have a need for operators, they probably -- we'd have to look at the terms of the Collective Bargaining Agreement, but my understanding is that if they would -- if they returned to another power plant, they had to go back at the entry position at the bottom of the line of progression for that.

We do have an ongoing need for operator trainees at that entry position, and I would presume that those -- if we did choose to transfer those operators to the other power plants and they accepted it, that they would have preference over any new persons coming from outside the Company.

COMMISSIONER KONDO: Now these vacant positions that you're talking about moving people into or back into are these new positions that would be created with the purposes of running or maintaining the existing power plants?

MR. GIOVANNI: They're existing vacant positions that have been vacant for several years.

COMMISSIONER KONDO: The vacant positions are included in the position count for the rate case?

MR. GIOVANNI: That's correct.

COMMISSIONER KONDO: So there would be additional positions that would be necessary if the Company -- if the Commission were to deny CT-1?

MR. GIOVANNI: Under that scenario, no.

COMMISSIONER KONDO: All right. Thank you.

MR. BROSCH: Excuse me. In an effort to complete a thought that may be relevant here. There are always vacant positions and there is, for the rate case, an adjustment embedded in the settlement to account for vacant positions.

COMMISSIONER KONDO: Which I understood to reduce the number of vacant positions to a lesser number; but, what I understood -- are you saying, Mr. Brosch, that in the event the Commission were to deny CT-1 that it would be appropriate to revisit that adjustment factor?

MR. BROSCH: No, I'm not saying that. I'm attempting to differentiate between, in a rate case, we're determining dollar recovery levels and not necessarily staffing decisions. And, I think, what Mr. Giovanni was getting to is the fallout of a rate decision disallowing the staffing for CT-1 would be, first, an operational decision about whether and how we provide any staffing at CT-1; and, then if that answer is, no, the management decisions about what to do with the people to implement that decision.

And I would be surprised if a rate case ordered or directed the Company to do anything specific with regard to staffing. I suppose it could but, typically, from my experience, it's mostly about whether the dollars are allowed or not; and, that's why I made reference to the vacancy adjustment.

COMMISSIONER KONDO: I guess my thought had been if the Commission disallows CT-1, perhaps the staffing level at CT-1 may be adjusted by management and that additional staffing may be necessary at other generators; and, that was, in part, the reason why I asked the question to see if additional staffing would be now needed for purposes of determining the staffing levels in the rate because of a decision by the Commission relating to CT-1.

Is that not a correct way to look at --

MR. BROSCH: No, I understood it that way. I was attempting to help the record by making reference to that other adjustment because staffing decisions made upon disallowance of CT-1, I heard Mr. Giovanni say would likely have an impact on actual vacancy levels; and, embedded in the rate settlement numbers, is a fairly significant downward adjustment to labor dollars to account for ongoing vacancy levels. That's my only point.

COMMISSIONER KONDO: All right. Thank you. Thank you.

MS. NANBU: If I could just make one clarification. The labor costs towards CT-1 was taken out when we did the calculation for the interim.

COMMISSIONER KONDO: Okay. Just so I understand what everyone has been saying, if the Commission disallows CT-1, no new additions relating to labor are necessary for what the interim says?

MS. NANBU: That is correct.

COMMISSIONER KONDO: All right. Thank you.

MR. HEMPLING: I hope we're not going to make this worse and maybe this goes for the CT technical witness when that time comes but why would a Commission decision to include or not include CT-1 in the current rate case make any difference whatsoever with how you staff CT-1.

You're still going to run the plant. Right?

Mr. Giovanni?

MR. GIOVANNI: That's the question.

MR. HEMPLING: I see. It's built, right, sitting there waiting to be used?

MR. GIOVANNI: Yes, it is.

MR. HEMPLING: Realistically --

MS. NANBU: It has been used.

MR. HEMPLING: Right, we'll get to that. I didn't mean to use the phrase in a legal way. I should have been more careful.

I'll pursue this with the technical witness on CT-1 when that time comes.

MR. GIOVANNI: That would be me.

MR. HEMPLING: Okay. All right.

CHAIRMAN CALIBOSO: All right. It's about time for our lunch break.

We will recess and return at 1:50.

We are in recess.

(Whereupon, at 12:21 p.m., a luncheon recess was taken, and the proceedings resumed at 1:56 pm., this same day.)

A F T E R N O O N   P R O C E E D I N G S

CHAIRMAN CALIBOSO: Good afternoon.

This hearing is reconvened.

We are still finishing up a few things with Panel 2, and we started this morning.

So Mr. Hempling?

MR. HEMPLING: Thank you, Mr. Chairman.

I have a short line of questions about the number of employees used to determine medical plan costs for the test year.

Is that your area, Ms. Price?

MS. PRICE: Yes.

MR. HEMPLING: Well, welcome.

MS. PRICE: Thank you.

MR. KIKUTA: Mr. Hempling?

MR. HEMPLING: Yes, sir.

MR. KIKUTA: Before you proceed, Ms. Price was not here this morning, so she was not sworn in as a witness.

CHAIRMAN CALIBOSO: Will you please stand, Ms. Price, give me your full name.

MS. PRICE: My name is Julie Kay Price.

CHAIRMAN CALIBOSO: Thank you.

Do you solemnly swear or affirm that the testimony you're about to give is the truth, the whole truth, and nothing but the truth?

MS. PRICE: I do.

CHAIRMAN CALIBOSO: Thank you.

MR. HEMPLING: Ms. Price, are you familiar with the number of employees used to determine medical plan costs in the test year?

MS. PRICE: Yes, I am.

MR. HEMPLING: And my understanding, from your HECO ST-16, page 6, is that number is for 2009, 1,618; is that correct?

MS. PRICE: Yes.

MR. HEMPLING: And that compares to 1,530 in the 2007 settlement?

I'm just reading off of ST-16, is that the context?

MS. PRICE: Yes.

MR. HEMPLING: Okay. Did the temporary workers -- and are you familiar with temporary workers and the Company's treatment of them?

MS. PRICE: Yes.

MR. HEMPLING: Do they receive the same medical benefits as the other HECO employees?

MS. PRICE: The temporary employees receive medical benefits but not all of the group insurance benefits like HECO employees.

MR. HEMPLING: So they received the same medical benefits?

MS. PRICE: They receive the same medical benefits but not at the same coverage level; in other words, they have to contribute more for medical than regular employees.

CHAIRMAN CALIBOSO: Ms. Price, could you just repeat the testimony number again?

MS. PRICE: T-13 (sic).

CHAIRMAN CALIBOSO: Thank you.

MR. HEMPLING: That's it. That was a long trip over here for that.

Thank you.

MS. PRICE: Thank you.

(Whereupon, Mr. Hempling briefly confers with the Commission.)

MR. HEMPLING: I'm sorry, your testimony you were referring to was ST-13?

MS. PRICE: Yes.

MR. KIKUTA: Yes, Mr. Hempling, if we may, we do have -- we did want to make one clarification to a question and answer provided in this morning's panel concerning the HECO temporary employees and whether the employee count of 1,618 included HECO temporary employees; and, Mr. Yamamoto's answer to that was that it did include the HECO temporary employees, but Ms. Chiogioji would like to provide clarification to that response.

MS. CHIOGIOJI: HECO's test year employee count is

1,636, as shown in HECO S-1510, Column G, Page 2. Benefits for temporary employees and part-timers are calculated separately. There are 18 temporary -- all right, let me qualify.

There are 17 temporary and one working as a part-timer in our employee counts. The adjustment of 18 employees results in the benefit calculation employee count 1,618.

MR. HEMPLING: Okay.

CHAIRMAN CALIBOSO: Any other questions from the Commissioners or staff on this Panel 2?

And seeing none, as I said earlier, we will give the parties an opportunity to cross-examine each other, if you so choose under this panel.

Why don't we start with Hawaiian Electric, if you have any questions, Mr. Kikuta?

MR. KIKUTA: We do not have any cross-examinations for this panel.

CHAIRMAN CALIBOSO: Thank you.

Consumer Advocate, Mr. Itomura?

MR. ITOMURA: No questions.

CHAIRMAN CALIBOSO: Thank you.

Mr. McCormick?

MR. MCCORMICK: It may surprise you but we have none. Thank you.

CHAIRMAN CALIBOSO: Thank you.

All right. Ms. Hempling, you can move on to the next panel.

MR. KIKUTA: Just give us a moment to regroup.

MR. HEMPLING: Yes.

CHAIRMAN CALIBOSO: Please, introduce your panel members starting with Hawaiian Electric.

MR. WILLIAMS: Thank you, Mr. Chairman.

Thomas Williams now changing places with Peter Kikuta for the benefit of the reporter.

There is a significant crossover between this panel and the last panel but we've also added two panelist to address one of the questions originally posed by the Commission.

So panelist Mr. Giovanni from Power Supply; Mr. Young, from Energy Delivery; Mr. Hee, from Energy Services; Mr. Yamamoto, from Customer Service -- Customer Accounts. Ms. Price did not come over for nothing. She had to be on this panel anyway, so she's doing employee benefits. Ms. Nanbu is the witness on A&G costs; and, Mr. Tamashiro has miscellaneous A&G costs.

And, as I said, two additional panelists on overall sustainable of costs continued measures would be Mr. Alm and Ms. Sekimura. I would also ask that Mr. Roose remain available if we do go into the AMI costs; as I understand, he was responding to those questions this morning.

Did I miss anyone?

Okay. Thank you.

CHAIRMAN CALIBOSO: Consumer Advocate?

MR. ITOMURA: Thank you, Chair.

For Panel 3, once again, we have Mike Brosch and Steve Carver for the Consumer Advocate.

CHAIRMAN CALIBOSO: Thank you.

Mr. McCormick?

MR. MCCORMICK: Yes, representing the Department of the Defense, we have Dr. Kay Davoodi and myself, James McCormick, both of us with the Naval Facilities Engineering Command. No witnesses.

CHAIRMAN CALIBOSO: Thank you.

Go ahead, Mr. Hempling.

MR. HEMPLING: Thank you, Mr. Chairman.

This Panel 3 entitled expense panel, and the subjects that I intend to cover are commodity prices, higher DSM expenses, significant expense increases in the area of medical insurance and outside services, and AMI research and development consulting, and I think that's it.

That'll get us through the end of today.

So welcome, gentlemen.

I have a few questions in the area of commodity prices, starting with the area of other production maintenance nonlabor expense; and, to get the context in the record, in your Exhibit HECO T-7 at page 100, at line 12 to 14, you refer to a 2009 test year forecast for other production maintenance nonlabor expense of 30,381,000, which is 2,360,000 higher than the 2007 reported expense of 28,021,000.

Do you see that?

MR. WILLIAMS: I do.

MR. HEMPLING: Okay. Now there was some interaction between you and the IRs concerning the role of commodity price increases in that 2.3-million-dollar increase.

Do you recall that?

MR. GIOVANNI: I do recall we had interactions --

MR. HEMPLING: You have --

MR. GIOVANNI: -- of commodity pricing.

MR. HEMPLING: So my question is what are the reasons, other than commodity prices for this increase in other production maintenance nonlabor expense?

MR. GIOVANNI: Well, the other production maintenance is comprised of three distinct categories of maintenance; first, being overhauls. And the overhaul nonlabor is comprised of both materials and outside services.

The second category is station maintenance, and that's also comprised of materials and outside services, contractor support, and supplemental labor.

And the third general category is what we call maintenance projects.

From one year to the next, the specific maintenance is unique in that we do different overhauls on different units of different sizes with different scope. We also do different projects from one year to the next. The only one that tends to be common from one year to the next is the station maintenance activities, which would tend to be broken into a number of smaller and preventive and corrective maintenance activities.

So in addition to -- you can look at any one of those categories, and specific to the work that was planned at hand, we would experience higher material costs, which were for fabricated parts, not just a root cause in commodities, because we tend not to use raw materials in any of our maintenance work. It's basically a fabricated part.

So depending on the work that was planned, the unit that we were doing the work on, that would be one case.

The other increase would be the typical escalation that we've seen year over year in terms of outside service costs.

MR. HEMPLING: I didn't get the first piece.

You referred to fabrication, but what's the cross driver there?

MR. GIOVANNI: The underlying commodity is but a small part of the cost driver.

MR. HEMPLING: Right.

MR. GIOVANNI: It's the particular design of the part itself that will be used in the maintenance activity that drives the costs of that.

MR. HEMPLING: Right. But what drives the -- what explains the costs increase?

You identified categories, but there something about -- was there something about the fabrication business or the fabrication process that would have driven the costs?

MR. GIOVANNI: Well, it depends on the work that is planned and the unit that's it's planned and the actual design configure. We're not working on the same -- we're not using the same materials year over year; so, depending on the activities that are planned, one year to the next, we will see a commodity driver or a -- and we will see an escalation of general costs for the fabrication of materials. We will see a driver in the escalation of the costs of the outside services that are used to facilitate our own to do the work.

MR. HEMPLING: What you're saying is that some of the work that you did for 2009 is different than the work that you did in 2007 and that difference in the type of work explained some of the costs increase and general inflation explains the rest of it.

MR. GIOVANNI: Thank you.

MR. HEMPLING: Is that roughly it?

MR. GIOVANNI: That's roughly it.
MR. HEMPLING: Okay.
MR. GIOVANNI: That's roughly it.
MR. HEMPLING: Okay. And then would you expect the same causes of costs increase to be the same for the remainder of 2009 and 2010?
MR. GIOVANNI: I think if you look at in the general long-term perspective, yes. You know, if you talk about what's going to happen in the next couple of months in 2009, we tend not to try to ramp up or ramp down our activities that would follow that. So I wouldn't know -- it wouldn't necessarily correlate for the matter of a short-term period over a period of months like the remainder of 2009; but, year over year looking forward, yes, I would.
MR. HEMPLING: And back to commodity prices.
Can you give any feel for what portion of the total costs of 30.3 million is attributable to commodity prices -- I'm sorry, let me restate that.
Do you have any feel for what portion of the 2.36-million-dollar increase can be attributed to commodity prices or is that just too mixed in with everything else to separate out?
MR. GIOVANNI: The latter, sir. It's too mixed in with everything else.
MR. HEMPLING: Okay. And would that be -- would

your answer be the same with respect to the category of other production operation?

MR. GIOVANNI: No. Other production operation is more similar year over year; and, so the material costs associated with other production operations tends to be chemicals of a similar ilk that are used for processing and treatment of water and the like; and, that is pretty much the same year over year. So as the pricing of that and the consumption levels of those consumables go, so will the operations; so, similar work year over year.

MR. HEMPLING: So that would be the reason why with respect to your HECO T-7, page 91, when you describe the increase in other production operation nonlabor expense as moving from $2,042,000 in 2007 to 2,625,000 for 2009, that 29 percent increase is largely attributable to higher material prices you say because the materials are the same?

MR. GIOVANNI: I'm sorry, could you tell me --

MR. HEMPLING: Yeah.

MR. GIOVANNI: -- where you --

MR. HEMPLING: I'm sorry, too. I'm at HECO -- I hope I'm at HECO T-7 --

MR. GIOVANNI: Yeah.

MR. HEMPLING: -- page 91.

MR. GIOVANNI: Ninety-one.

MR. HEMPLING: And you're referring to other production operation there?

MR. GIOVANNI: Yes.

MR. HEMPLING: And, again, the numbers were nonlabor expense in 2007, for materials that is, 2,042,000? Right?

MR. GIOVANNI: What line are you on?

I see line 19. Okay. Now I'm with you.

MR. HEMPLING: And the 2009 being 29 percent higher at $2,625,000.

Do you see that?

MR. GIOVANNI: Yes.

MR. HEMPLING: That you're attributing to higher material prices because of escalating commodity prices?

MR. GIOVANNI: That's a portion of it. I believe that this increase also includes some material pricing for CT-1 for several months of operation.

MR. HEMPLING: Well, when you said in your initial discussion just a few moments ago about the materials, the work being the same essentially from year to year, that's why the commodity price increases represent a larger portion of the explanation of the increase?

MR. GIOVANNI: Let me clarify. For 2009, on the nonlabor costs and operations, there was two factors. One was the year-over-year escalation and material costs; and, the second being the first-time material costs, which occurred, for five months of operation of CT-1 in two parts.

MR. HEMPLING: Concerning the role played by commodity price increases in this area of other production operation, do you expect those commodity price increases to continue for the remainder of 2009 and during 2010?

Do you have any idea?

MR. GIOVANNI: I do not. I mean, we monitor those prices and we attract certain indexes, as I have shown in my response to the PUC IR 153, which gives an indication of some of the commodity variations that does occur. I hesitate to speculate what they'll do in the next three months or the next year.

MR. HEMPLING: There's no way for the Company to hedge against that type of commodity price increase because you're not buying commodities, you're buying --

MR. GIOVANNI: We're buying materials.

MR. HEMPLING: -- materials?

MR. GIOVANNI: We're not buying commodities. We're buying fabricating materials.

MR. HEMPLING: And do you have it in the -- with respect to those who sell those materials to you is to pass on fully the commodity price increases?

MR. GIOVANNI: I would expect that they do, yes.

MR. HEMPLING: Can we turn to the category of transmission and distribution materials inventory.

Is that the same --

MR. YOUNG: Transmission and distribution, I'm Robert Young.

MR. HEMPLING: You all set, gentlemen?

MR. WILLIAMS: Yes, sir.

MR. HEMPLING: Mr. Young --

MR. YOUNG: Yes.

MR. HEMPLING: -- welcome.

THE WITNESS: Thank you.

MR. HEMPLING: And your area is transmission and distribution materials inventory?

MR. YOUNG: That is correct.

MR. HEMPLING: And what role do commodity price increases play in your area?

MR. YOUNG: Well, in our area, it has a similar effect as it has in power supply where when we purchase goods from manufacturers, the changes in commodity prices has an impact on the prices we pay for those materials.

MR. HEMPLING: So the correlation between your total costs and -- excuse me. The correlation between your total cost increases in the transmission and distribution area and commodity price increases is direct?

MR. YOUNG: It --

MR. HEMPLING: In other words, you can -- there's a correlation between the two and it's a major type of contributor?

MR. YOUNG: It is a contributor, that is correct, but there are other factors that effect the materials inventory value. And the other factors are, you know, what type of items we had in inventory and how fast that the materials turn from inventory; so there's some -- there are some materials that don't turn as fast and so their prices would not change necessarily with respect to commodity pricing, because their prices have been fixed at the time that they were purchased and placed into inventory.

So it would be those items where on a faster turn, so if they were used out of inventory a lot quicker, then you might see the impact of the defective commodity prices on the prices that we were paying for the replacement.

One thing I'd like to add, and I think in the response to the supplementing testimony is that, you know, we try to look for ways to try to manage that aspect by looking at long-term contracts so that we can fix the pricing; and, so some of the materials that we purchased have longer term contracts where the price is fixed.

So, in those situations, until the term of the contract ends, the pricing is fixed on those materials, so when the contract ends, then we have to go out and purchase the material at whatever the prevailing rates are or prices are for those materials.

MR. HEMPLING: So you have a choice in acquiring transmission and distribution inventory between long-term contracts and just buying enough to fill out the inventory at a particular point in time?

MR. YOUNG: Well, for some of these items, yes, we have. We can take a look at contracts for certain types. I think those are the ones -- the things that are more widely used that are kind of not specialty items like screws and things like that. We don't necessarily have to have a long-term contract for those, but for item -- other items we may have long-term contracts with them to see if we can fix prices on those.

MR. HEMPLING: So Mr. Giovanni, that option of long-term contracts is a method of taking against volatility in commodity prices.

Is that not available in your area?

MR. GIOVANNI: It's not necessarily available to us because the fabricated components we buy year over year or job over job varies. We have a lot more one-off-type materials that we utilize; and, so we tend not to -- or we don't have that available to us in production.

MR. HEMPLING: Now, Mr. Young, excuse me, concerning the cost drivers that explain the difference between 2007 and 2009, that we discussed before, do you expect those cost drivers to continue to have similar effect in 2009 and 2010?

MR. YOUNG: I'm not sure that I can predict how much those are going to change, but I would imagine that circumstances change where, you know, if there's a larger demand for goods and other things happen in the market, then we may be seeing changes in commodity prices but I don't know. I can't predict what's going to happen. But I do know that the prices we pay, if they're tied to commodities, if they're materials that are made from commodities would be subject to whatever variability exists going forward.

MR. HEMPLING: Okay. Can you help me with this relationship between total T&D plant and T&D materials inventory.

I'm looking at Exhibit T-817 and it's entitled Transmission and Distribution Utility Plan year-end totals.

MR. YOUNG: HECO 817?

MR. HEMPLING: That's the number I have in my notes.

Is that the number you have on yours?

MR. YOUNG: HECO 81, yes.

MR. HEMPLING: It's entitled Transmission and Distribution Utility Plan.

MR. YOUNG: Yes.

MR. HEMPLING: If I understand this right, the total Transmission and Distribution Plan increased about

7 percent from 2007 to 2009, is that about right?

MR. YOUNG: I believe so.

MR. HEMPLING: And there was roughly a 23 percent increase in the T&D, transmission and distribution materials inventory costs during that same period?

MR. YOUNG: Yes.

MR. HEMPLING: Could you help us understand the relationship between those two numbers?

MR. YOUNG: Well, I don't know necessarily that there's a direct relationship between the two, because the plan that we put in service are maybe for other things other than -- I mean, it's equipment or materials that we purchased for the capital projects.

The plan and service could originate from projects that start a couple of years before, not necessarily in this particular year, the test year; and, so at the time that the equipment and materials were purchased, we would be paying whatever prices there were at the time that the order was placed.

The T&D materials inventory represent the value of the inventory that changes over time and reflects past purchases as well as recent purchases; so, I'm not sure that there is a relationship necessarily between the plan and service and the materials used.

MR. HEMPLING: It's real apples and oranges?

MR. YOUNG: I believe so.

MR. HEMPLING: Okay. But you didn't want to put it that way but --

MR. YOUNG: It's apples and oranges.

MR. HEMPLING: -- okay, got it.

MR. YOUNG: Thank you.

MR. HEMPLING: All right. Thank you.

I'm going to turn to IRP costs now.

MR. WILLIAMS: Did you get your name tag?

MR. HEE: I did.

MR. HEMPLING: Good afternoon, Mr. Hee.

MR. HEE: Good afternoon.

MR. HEMPLING: Give me a second, please.

Mr. Hee, I've got a IR from you and numbered PUC IR 166.

MR. HEE: I have it.

MR. HEMPLING: Yeah, so we're looking at -- this table list -- we're looking at a table together that list the four major categories of costs related to IRP-CESP for the period 2008 to 2010. Right?

MR. HEE: Yes, it's on page 1 PUC IR 166.

MR. HEMPLING: Okay. And it shows, for example, a total for 2008 recorded of 987,781?

MR. HEE: Yes.

MR. HEMPLING: And the 2009, January to August, recorded 496,8551?

MR. HEE: Yes.

MR. HEMPLING: And the 2009, September-December estimated, of 394,365?

MR. HEE: That's correct.

MR. HEMPLING: For 2009, estimate total of 891,216?

MR. HEE: Right.

MR. HEMPLING: And then you're estimating for 2010 budget $1,634,078?

MR. HEE: That's correct.

MR. HEMPLING: So the variability among these numbers stands out.

What do you see as the reasons for that?

MR. HEE: Let me start by talking about what's in the 2009 period.

In 2009, we were asked by the Commission to stop efforts on IRP and to focus our resources on looking at amendments to the IRP framework. At that point in time, we did stop efforts to pursue an IRP for a panel hearing and instead focused our activities on the framework.

As a result of focusing our activities on looking at amendments to the framework, there were many costs that we did not incur in 2009. They included costs that would have been a part of the next cycle of IRP, which would have involved substantial nonlabor costs.

So as a result of that effort to focus on amendments to the framework, the costs of 2009 estimated of approximately $900,000 is not anywheres close to what we're look at 2010.

Now, in 2010, that budget submit assumes that we start -- let me step backwards.

It assumes that we had the panel hearing for the amendments to the IRP framework in January, as identified in the docket procedural workers from the Commission, and that we start the next CDST cycle in mid-2010, at which point in time, we start the cycle for -- that three-year cycle for that process.

In starting that process, we're going to go through three phases. Phase No. 1 is the supply side, identifying the supply side alternatives. Phase No. 2 is to look at the full scale technical analysis. Phase No. 3 is to develop the long-term resource plan.

That effort requires a much more nonlabor efforts and that's -- and if you look at the page 1, the table that you're referring to, you'll see that the 2010 budget estimate does have significant increases, and the outside services are nonlabor activities.

MR. HEMPLING: You know that's the major contributor to the difference between 2010 and 2008. It's 500,000 of the 700,000-dollar difference approximately.

Correct?

MR. HEE: Yes, that's right.

And 2008 was the date of the last IRP for filing; so, I think the report was filed in the later half of 2008.

Therefore, we were scaling down efforts for outside service because those efforts had already been accomplished, so that's the difference there is because of the effort that we need to get going on the CESP cycle in 2010 versus the scaling down of the IRP-4 efforts in 2008.

MR. HEMPLING: So it's not some perceived difference between CSP versus IRP. It's really a question of timing with respect to how these dollars were recorded?

MR. HEE: It's a method -- it is a timing of the expenses. We also, however, have indicated that the CSP effort, as we have proposed in our framework, is not dramatically different from the process that would be used for IRP -- the previous IRP. However, the costs, because we're -- because of the fact that we are now looking at many new supply site resources, such as PV, when battery storage, those will require a substantial amount of developing the characteristics of those types of resources, which we have not really gone into very much previously.

So that's going to be a -- I think a -- it's going to be an increase in the nonlabor costs in order for us to develop that information for those resources.

MR. HEMPLING: So it sounds like you're describing not just variability among the years but uncertainty about what the total costs will be in the future. You've got the 1.6-million-dollar estimate for 2010 but you don't know what the number will be by the time the year is over or what 2011 would look like.

MR. HEE: Well, we have -- we have estimates for -- you know, these are estimates for 2010 that involve those assumptions and part of that assumption is that we're going to need a lot more laundry costs to help us through that cycle.

MR. HEMPLING: So does the Company have a view going forward as to whether recovering this type of cost through base rates versus, say, a surcharge is better?

MR. HEE: I do not have a view on that amount, but we do know that the Commission saw that it was beneficial to put them into base rates; so, we are assuming that that is the same going forward.

MR. HEMPLING: I should know the answer to this question but I don't.

Is there is an IRP surcharge now?

MR. HEE: There is. The IRP surcharge however is there to recover costs that have not yet been ruled upon by the Commission into the past. Right now, we are not passing any costs, current costs -- let me step back.

Yes, there is an IRP surcharge. The IRP surcharge consists of the recovery of several different costs. It includes the recovery of IRP-related costs as well as the DSM surcharge provision, which is included as one of those surcharges.

MR. HEMPLING: Are there employee costs recovered through the IRP surcharge today?

MR. WILLIAMS: I would suggest if there's any question, Ms. Nanbu, who is the accounting person for that surcharge, would be happy to answer that question.

We just have planning costs in the surcharge and they're no longer in the surcharge, just the DSM costs and certain management costs, is my understanding.

MR. HEE: That is correct. There are no employee costs being passed through the DSM surcharge component of the IRP cost recovery portion.

MR. HEMPLING: What about the other component?

MR. HEE: The other component is the IRP planning costs and we are not recovering any of our current costs, IRP planning costs?

MR. HEMPLING: I'm sorry?

MR. HEE: The planning component.

MR. HEMPLING: The last sentence again.

MR. HEE: We are not recovering any employee costs through the IRP planning component.

MR. HEMPLING: Or through the DSM component?

MR. HEE: Or through the DSM component.

MR. HEMPLING: No employee costs whatsoever being recovered through the IRP surcharge?

MR. HEE: NO, there are --

MR. HEMPLING: Sorry. Was the answer, No, there were none?

MR. HEE: There are none for current costs. There may be some -- as I was -- as I was indicating to Commissioner Kondo earlier this morning, at some point in time there were some employees that were incremental employees, and those incremental employees were being recovered through the DSM surcharge component.

MR. HEMPLING: Your word "incremental," incremental to what?

MR. HEE: Incremental to what's being recovered in base rates.

MR. HEMPLING: Okay. Can we run through this again?

MR. HEE: Yes.

MR. HEMPLING: In terms of current recovery of costs through the IRP surcharge, are there any employee costs?

MR. HEE: No, there are none.

MR. HEMPLING: So there's no chance of a double recovery where some employees are in the revenue requirement proposed in this case and those same employee costs are also flowing through the surcharge, no chance of that?

MR. HEE: There's no chance of double recovery, that's correct.

MR. HEMPLING: Not just because you're alert but because there are zero employee costs in the surcharge?

MR. HEE: That's correct.

MR. HEMPLING: You were about to answer that sentence or you liked the way it ended?

MR. HEE: No, I like the way it ended.

MR. HEMPLING: Okay. Do you anticipate funding staff employees through the IRP surcharge?

MR. HEE: I do not -- I do not intend to do that.

MR. HEMPLING: Okay. Can we discuss now the DSM costs, and the general question that I'm going to pin down --

COMMISSIONER KONDO: Sorry, could I ask a question about IRP costs?

Mr. Hee?

MR. HEE: Sure.

COMMISSIONER KONDO: Other than the Settlement Agreement and the amount for the Settlement Agreement for IRP labor and nonlabor $1.091 dollars; yet, I see your chart that you're discussing with Mr. Hempling, the total labor and nonlabor, 891 and some change.

Could you explain why the -- or has the Company made an adjustment to what was in the settlement prior to the

IRP costs; or, if not, can you explain why that would be?

MR. HEE: Yes, the amount that's -- first, let me step back. The IRP cycle is over three years; and, as I explained earlier, there are some tiny issues that affect the amount of costs each year.

Typically, in the first year of the IRP cycle, there's a -- the first two years of the IRP cycle is there is a substantial amount of costs involved in creating the plan in the use of outside services to assist us with the development of that plan.

In the last year, where those efforts have primarily been completed, the efforts then are related to compiling the information and putting out the report for issuance to the stakeholders. Therefore, what I get to is that the costs vary substantially between each of the different years.

Therefore, to get to your point, is that the amount settled upon was a normalized amount for conclusion to base rates. Therefore, it would not and would not be expected to be equal to the amount of actual 2009 expenses.

COMMISSIONER KONDO: Okay, thank you.

I have another question about IRP CESP, just, kind of, a big picture question.

Given that the IRP activities -- maybe the answer is the same of what you just gave me -- but given that the IRP activities for the test year are much less than in prior years, given that CESP is a docket that the Commission will consider in the near future, but there's no actually -- there's no active IRP working groups and those types of things that I understood was part of the IRP process, can you explain why the same number of employees, why there's not a reduction in the number of employees that are in that department?

MR. HEE: Could I ask you to identify where that is?

COMMISSIONER KONDO: I'm just asking a very broad general question, because it seems to me, logically, if you're doing as much work, you don't need as much people.

So given that the IRP or CESP activities, this test year 2009, are much less than in prior years, why do we not see a reduction in the number of employees that are related to IRP CESP work?

MR. HEE: Actually, the difference in the amounts from year to year of the IRP costs are in the nonlabor or outside services. The amount of labor costs are approximately leveled amongst the years. So when a third year of a cycle, because the effort has shifted to a nonlabor into the analysis and into the report writing, actually the amount of labor for the 30 year is going to be approximately the same.

COMMISSIONER KONDO: I don't know if you're explaining to me what you explained to me in the costs, that you're normalizing the expense because, certainly, the IRP process that I have participated in, the Company put a heck of a lot resources in those meetings; and, given that that is not ongoing in the test year, that was my question.

What happens to all of those employees?

Why is the number the same?

And I don't know if you're answering because it fluctuates during the years and you're normalizing the employee count or costs or whether there's another answer. I guess I'm not understanding the response.

MR. HEE: The labor costs is going to remain approximately the same as we go through the cycle. In fact, if I may, the 2009 we have, in fact, had an advisory group, technical meetings, I guess, I should say, as part of the CSP framework discussion; so, those meetings still occur in one form or another.

COMMISSIONER KONDO: So your testimony is in the test year relating to CESP the amount of the labor expense is similar to the amount of labor that the Company incurred in other IRP years?

MR. HEE: That's correct; approximately, the same --

COMMISSIONER KONDO: All right.

MR. HEE: -- yes.

COMMISSIONER KONDO: Thank you.

MR. HEMPLING: Can we talk about DSM costs?
Is that also you, Mr. Hee?

MR. HEE: Yes.

MR. HEMPLING: Are you familiar with the transition of certain DSM -- excuse me -- of energy efficiency programs to the third-party administrator?

MR. HEE: I am.

MR. HEMPLING: Can you help the Commission understand how many positions HECO eliminated as a consequence of the administrator taking over energy efficiency programs?

MR. HEE: We eliminated five employee positions as well as approximately seven contract employees.

MR. HEMPLING: So do those people actually move to the third-party administrator or they left the Company or were reassigned elsewhere to the Company and Company positions?

MR. HEE: The five HECO employees have found employment in other departments. The contract employees have found other positions, some of them with the third-party administrator; some of them elsewhere.

MR. HEMPLING: Do you know offhand how many HECO employees went to work for the third-party administrator?

MR. HEE: Well, no HECO employees actually went over to the third-party administrator, only some contract temps.

MR. HEMPLING: Sorry, yes.

How many actually went to work for the third-party administrator?

MR. HEE: I think there were at least two, maybe three.

MR. HEMPLING: Okay. Are you also the person to ask about the residential direct load control program and the commercially industrial load -- direct load program?

MR. HEE: Yes, I am.

MR. HEMPLING: Your Company has applied for an extension of these programs?

MR. HEE: Yes, we have.

MR. HEMPLING: And what was the impetus for applying for the extension?

MR. HEE: The Company maintains that there are ratepayer benefits to having those two programs. The ratepayer benefits include reliability enhancements as well as the ability to save fuel expenses when they are used to -- instead of bringing on another unit to provide reliability benefits as well as future benefits in terms of being able to increase the amount of renewable energy that the grid is able to accommodate.

MR. HEMPLING: Right, I understand the potential benefits.

The costs associated with these programs that is in the Settlement Agreement rates, those would be a cost -- the cost level presumes Commission approval of the extension of both programs?

MR. HEE: We are talking about a 2009 test year and which is this year, so those levels of costs would be those levels of cost that we would see this year.

MR. HEMPLING: I think the answer to my question is, yes, that the level of costs that are in the test year proposed revenue requirement is consistent with an expectation that the Commission would approve the extension of both programs?

MR. HEE: They are consistent with the Commission for those programs to go forward.

MR. HEMPLING: And is there any -- is this a sensible question to ask, Is there any variation between the test year costs and your budgeted coss?

MR. HEE: For?

MR. HEMPLING: I'm sorry, for the two programs.

MR. HEE: No, there would not be a difference between the test year costs and our budget costs for 2009.

MR. HEMPLING: Because you would have used the budget of costs for test year purposes?

MR. HEE: That's correct.

MR. HEMPLING: Okay. I knew it wasn't a good question. Thanks for being so polite. You must be used to this.

And are there contract employees involved in the labor costs portion of the budgets for these two load control programs?

MR. HEE: No, there is no contract employees involved in labor costs. There may be some contract employees involved in some of the implementation costs or outside services costs; and, those outside services costs are incremental and recovered through the DSM surcharge.

MR. HEMPLING: Well, somebody from the staff here dug out from the energy efficiency docket in 2005.

Were you and I both in that case or just me?

MR. HEE: No, I was there.

MR. HEMPLING: Okay. That the labor costs back then didn't include contract employees; in fact, eight out of eighteen positions.

Does that ring a bell with you?

MR. HEE: I think at that point in time in the 2005 rate case what we were proposing to bring contract employees into base rates.

MR. HEMPLING: But you're not doing that now?

MR. HEE: We're not doing that now.

MR. HEMPLING: What's the difference, the pros and cons of doing that?

MR. HEE: The pros of bringing in contract employees was that is if those programs were going to be here for the long-term that they really represented an ongoing level of service by the companies. The con was that if, in fact, the programs were short-term and that there was a possibility that they may be moved elsewhere outside of the utility and it would be best to have them recovered through a surcharge.

MR. HEMPLING: Okay. Could we turn to a new subject now, which is outside services, specifically this Ellipse --

COMMISSIONER KONDO: Could I ask some questions about the --

MR. HEMPLING: Yeah.

COMMISSIONER KONDO: -- load manager program?

So I understand what your response to Mr. Hempling is if the Commission does not approve the continuation of two programs, do I understand you to say that the amounts that are included in the test year should be removed?

Because I think I'm asking the question the opposite way that Mr. Hempling asked.

MR. HEE: We did expend -- we did have expenses for the test year. The test year is this year. So we have had those costs in the test year. So, from that standpoint, they should -- it should remain.

On the other hand, because we don't expect to have an interim -- I'm sorry, on the other hand, because some of those costs may not be incurred if the Commission decides on that docket, then -- and if you believe one alternative is to recover them through a surcharge, so that is a possibility.

COMMISSIONER KONDO: I want to ask about some of the expenses that are in your budget. And what I understood your responses to some IRs to be talking specifically about the advertisement expense.

I know in the budget the amount was $424,000 for the residential direct load program; and, I think through -- I'm not -- through September 30th the actual incurred was 77,900 and some change; and, I think in the IR response, the Company had indicated that the appropriate amount for the advertising costs should be $120,000 annually; is that correct?

MR. HEE: That is correct. It recognizes what our actual costs were for advertising in the RLC program, that's correct.

COMMISSIONER KONDO: And is the corresponding of the next step, it would reduce the amount to be recovered for the -- by reduced amounts of advertising expenses?

MR. HEE: Yes.

COMMISSIONER KONDO: Would that also reflect in the future budgets so that the Company relating to the RDLC program?

MR. HEE: Yes, we believe that that amount of funding advertising is sufficient to take us into 2010.

COMMISSIONER KONDO: And that's the reason why it would be appropriate to adjust it in the test year. Correct?

MR. HEE: Yeah, that's correct.

COMMISSIONER KONDO: Could you talk about the same issue relating to the commercial industrial load control program advertising expense.

My understanding was the budget amount was $158,000 and the actual is through -- I think this one was through July 31st was in the amount of 2,500 and some change?

MR. HEE: And that is a little different. And the reason it's different is because the small business direct load control program has not yet got off the ground in its entirety; and, as we ramp up on that small business direct load control program, which it already has, that we are expecting much higher marketing and advertising costs for that program.

COMMISSIONER KONDO: Are you expecting to spend $158,000 between, I guess, August 1 through December 31st on the commercial side?

MR. HEE: Our expectation is that we will be spending between now and the end of the year approximately $52,000 for small business direct load control costs.

Nevertheless, in 2010, the program will be in place for the whole year. So what we believe is the correct amount is to recognize that the entire amount that the program will, in fact, be in place for 12 months in 2010.

COMMISSIONER KONDO: Can I ask the CA what their position is on that?

I guess we have a test year concept and, I guess, maybe I'm getting confused with the attempt by the Company to maybe normalize -- I don't know if that's a correct term -- expenses that are not incurred during the test year but would be incurred in future years?

MR. BROSCH: I think it's -- I think it's fair to stay that there's always some tension between those concepts. On the one hand, test year expenses budgeted in the year are the beginning point for it making it, and the focus is on whether spending is likely to be that amount in that year, recognizing that in some historical years that some other amount and in some future year, you have some other amount we expect but don't know.

So when we look at individual issues, we try to reach a reasonable ongoing level estimation. When we were talking earlier about the IRP nonlabor expenses, Mr. Hee was describing the cycle from IRP that caused nonlabor expenses to be relatively high in one month or one year and then lower in subsequent; and, because of that, a convention was adopted in the '05 test year to smooth that out with a three-year average.

And I understood Mr. Hee to say the numbers were taken from the budget for 2009 but there was actually a normalization to the budget numbers because of that interest in smoothing.

With respect to the load control issues, we looked at the Company's expectations in -- as described in the direct testimony and the exhibits, and engaged in some dialogue and quite a few IRs to better understand where those costs were going, and there was a ratemaking adjustment that I sponsored in CAT-1 and that you can see in Exhibit CA-101 at a schedule C-11 for base DSM expenses.

So, in that area, in spite of the budget being what it was and the Company recommending no normalization adjustments, there actually was an adjustment made by the Consumer Advocate that was accepted, in part, by HECO through settlement discussions; and, the thrust of that adjustment was to look to this notion of base DSM expenses, those expenses recoverable in base rates, knowing that the energy efficiency programs were moved into the third-party administration, our expectation was there should be a significant downward adjustment in the base expenses in total, that there would be some avoidable costs.

That what the C-11 adjustment attempted to do, and there was a compromise such that when we described the basis, explain the basis of this adjustment to the Company, we negotiated a somewhat smaller downward adjustment. That's probably more than what you wanted to know but that's how that issue played out in the settlement.

COMMISSIONER KONDO: I don't know if you could answer this, but from what I understood you to say is there was a downward adjustment on specifically relating to the commercial load control programs, the advertising expense, or is it just a very general broad downward adjustment for all DSM expenses?

MR. BROSCH: If you look at -- I don't know if you have there --

MR. HEMPLING: I have it.

MR. BROSCH: -- our Schedule C-11.

COMMISSIONER KONDO: I have that in front of me.

MR. BROSCH: Okay. In the box at the bottom of the schedule, there's a recap of historical expenses recovered through base rates for each of these programs; and, knowing that the energy efficiency programs were moving, the calculation in the box suggested that if we look at two historical periods, there could be a downward adjustment ranging from 33 percent to as little as 11.7 percent, depending on which year you chose to look at.

I averaged the two years and came to understand that there were some issues in the recorded '07 numbers. Mr. Hee may be able to remind me now what he told me then as we discussed that adjustment; but, as I said, there was -- there was some compromise in the settlement yielding a somewhat smaller downward adjustment for the expense items that you see there, which are the base DSM load control related costs.

Footnote B references the source for those numbers that you see on line 2. And the admin and information technology costs, which are overhead like expenses that HECO incurs to run both load control and energy efficiency.

COMMISSIONER KONDO: But wasn't the primary purpose of the downward adjustment to account for the fact that the energy efficiency programs were being moved to Hawaii Energy and it had nothing to do with the fact that their actual expenditures relating to, for instance, the commercial load control program are a lot less than what was budgeted?

MR. BROSCH: That's right. We were trying to capture here what was happening with these base expenses and what we should expect going forward given the transfer of energy efficiency programs and direct costs to third-party administration.

COMMISSIONER KONDO: Okay. My specific question then is relating to the numbers that Mr. Hee and I were talking about, where you have a budgeted amount of $158,000 and you have actual expenditures of $2,500 through the halfway point of the year, and Mr. Hee's testimony that they expect to expend another $50,000 through the end of the test year, which clearly is still maybe a third of the amount that's been included in the test year expenditure or the advertising expense for the commercial load program, can you comment as to whether or not the CA agrees that the amount to remain at $160,000 roughly for purposes of the test year versus trying to look at what the actual expenditures will be through the end of the test year?

MR. BROSCH: I can only comment by saying that you have more information now than I had then when my testimony was prepared and the variances were different then. We didn't have much actual information. As a general matter, I would encourage you to evaluate the latest and best information you have and make further adjustment if you think it's appropriate.

COMMISSIONER KONDO: I guess I'm asking for the Consumer Advocate's position with respect to this particular item or this particular line item, whether or not it's appropriate for the Commission to continue to use the 158,000- and 160,000-dollar figure even though Mr. Hee's testimony is they expect to expand during the 2009 test year only 50,000 and some change?

MR. BROSCH: I have not formulated a position on that specific adjustment. I would probably try to collect more information about whether that revised lower number is representative of ongoing conditions or not.

As a general matter, I would encourage you to assign some weight to actual spending; particularly, we're most of the way through the test year, and the basis of that number in the revenue requirement is an estimate prepared some time ago.

COMMISSIONER KONDO: Okay, thank you.

Thank you.

MR. HEMPLING: Excuse me. Turning to outside services and specifically the Ellipse 6 upgrade.

Who is that?

Could you, Mr. Giovanni, remind us what the Company's purposes are with these two softwares: Ellipse 6 and eMESA, the purposes?

MS. LABORTE: Ellipse 6 is the enterprise management system that the Company uses for recording accounting, work management, budget control. It's the software system that the Company uses to track all the financial information.

MR. HEMPLING: They track all of its what?

MS. NANBU: Financial information and project information.

MR. HEMPLING: And how long has it been using thins?

MS. NANBU: Ellipse first -- well, it was originally part of the mini-com software system that we installed in January 1999. Ellipse, it was changed to meet Ellipse when we did the upgrade in 2002 and 2003.

MR. HEMPLING: Okay. And eMESA?

MR. GIOVANNI: The Ellipse enterprise software does not have a strong software component for work process management, and work process management is fundamental to scheduling and planning work in both the energy delivery and the car supply process areas of the Company. So in the absence of a strong tool, software tool, in Ellipse, we've been using different tools, including workarounds created using Excel spreadsheets and also a planning scheduling tool in power supply, which goes by the trade name Pasta.

Recognizing the limitations that was there; and, in addition, to the Ellipse, the min-com company was offering in its next upgrade of Ellipse, to have work process management software. In 2007, we embarked on an evaluation of the alternative software, and eMESA is a software package that communicates directly with Ellipse and that can be utilized throughout the Company for scheduling and planning its maintenance work.

MR. HEMPLING: Okay. Now I've got the proposed settlement outside services figure is 2,666,000.

MS. NANBU: Yes, yes, that number consists both of outside services for legal as well as outside services for other?

MR. HEMPLING: I'm sorry, outside services for legal and what?

MS. NANBU: And outside services for other. It's comprised of two account numbers, yeah.

MR. HEMPLING: Legal and other?

MS. NANBU: Yes.

MR. HEMPLING: And the consultant costs for Ellipse and eMESA are included within the --

MS. NANBU: Outside services other, yeah.

MR. HEMPLING: So I've got in your testimony 1,145,000 for the consultant costs for Ellipse. Correct?

MS. NANBU: Yes, that's correct.

MR. HEMPLING: And $127,000 for the consultant costs for eMESA?

MS. NANBU: Yes.

MR. HEMPLING: So the remainder of the 2.66 million is largely legal?

MS. NANBU: The legal costs are about $131,000. The other big piece in the other outside services is fees for integrated audit that is done by KPMG annually, the financial audit that KPMG does annually for us. The KPMG component of the total is $769,000.

MR. HEMPLING: I'm sorry, that last sentence please.

MS. NANBU: The KPMG fees are about $769,000.

MR. HEMPLING: Okay. Now the 2007 amount for this category of outside services was 1,320,000.

Does that ring a bell?

MS. NANBU: Yes.

MR. HEMPLING: Okay. So the approximately doubling between these two numbers, that is the settlement amount and the 2007 amount, what would be the reasons for that?

MS. NANBU: Yes, the biggest component is the costs for the Ellipse 6 upgrade.

MR. HEMPLING: Okay. Well, in fact, the upgrade of costs 1,145,000, so it's more than the entire increase?

MS. NANBU: I'm sorry?

MR. HEMPLING: Nevermind. You can just act --

MS. NANBU: Yes.

MR. HEMPLING: -- like I never asked that question. That's the first smile I got out of you all day. I'll make more mistakes.

Okay. Now you've got a discussion. There's apparently a disagreement historically between the Company and the Consumer Advocate concerning the normalization of costs such as this IT consulting costs. Correct?

MS. NANBU: Yes.

MR. HEMPLING: Well, I want to get a fix on this disagreement or difference in principle so that the

Commissioners can understand it.

Your view -- the Company's view is that, absent normalization, if there are costs like these IT costs incurred prior to a rate case but not the test year, there would be no way for you to get recovery of the dollars; is that correct?

MS. NANBU: That's correct. I guess maybe trying to go back, in our 2005 test rate case, we did try to normalize, included the test rate expenses and normalized costs for upgrading the ellipse system. At that time, we had just completed an upgrade, the 2002-2003 time period; and, based on the costs for that upgrade, we tried to include an estimate -- the total cost for the 2003 upgrade divided by five years as an estimate for the test year in 2005 but the Consumer Advocate did not want to include any normalized costs for an upgrade because it wasn't going to occur in the test year.

MR. HEMPLING: The upgrade would not occur during the test your or the incurrence of costs would not incur during the test year?

MS. NANBU: They incurred of costs --

MR. HEMPLING: Okay.

MS. NANBU: -- and would not incur in the test year. We did not include, in the 2005 test year settlement numbers, any costs related to an upgrade.

Come to 2007 rate case, the Ellipse system again had some IT costs that were -- it was incurring. We needed to move the Ellipse system off of the mainframe into the UNIX platform, and we had to incur costs both in 2007 and 2008.

In that test year, the costs related to 2007 was normalized over a three-year period. Estimated costs in 2007 was going to be $850,000; and, the costs in 2008 was going to be $320,000. Only the $850,000 that were going to be incurred in 2007 was normalized over a three-year period and one-third of the costs were included in the test year.

So come to 2009 test rate case and considering what had happened in the 2007 case, where it's been only two years since the last rate case, we were not able to recover the costs for the UNIX migration because it was only over a two-year period and we incurred costs in 2008. There was not -- being able to be recovered in rates.

So come to the 2009 rate case, the Company opted to include all the costs that it would incur in 2009 actually. That is the basis for our (inaudible).

Obviously, the Company would not consider normalization but the Company believes that both the costs -- the entire costs of the project should be considered in not only the costs within the test year, the costs for the full project; but, the costs that incurs in that test year or the following year.

I mean, I guess, if you look at it, if you look something that occurs in a test year and you normalized -- and it -- and you normalize it over two years, you get one half of it; but, if it occurs outside of the test year, and you -- and because it's not in the test year, you don't get to include it, then you never get to recover a cost that upwards between rate cases.

MR. HEMPLING: So what's the problem with this argument that Ms. Nanbu is making, Mr. Carver?

Why is it that the Consumer Advocate seems to oppose the normalization of this type of periodic costs?

What's the principle that you're operating under?

MR. CARVER: I would go back to the beginning of 2005 test year. The Company was seeking to recover costs that it was estimating it might incur for an upgrade for a version of the system that the Company -- the software supplier would continue to support for several more years; so, it was not at a point of, a, needing to be replaced because it was becoming obsolete; and, b, there was significant uncertainty that the Company was really going to incur those costs during the 2005 test year; so, that was the difference between the Consumer Advocate and HECO in that 2005 rate case.

MR. HEMPLING: Excuse me. So, it's -- if I can just sort of pin down the question here because I don't want to go too much back in the family history.

Is there a principle disagreement that the CA has concerning the notion of normalizing this type of costs where the costs does not get incurred in the test year?

Is that a principle objection or does it vary depending on how certain the costs are?

MR. CARVER: I think it varies dependent upon how certain the costs are and also the nature of the facts and circumstances that underlie each particular item. I don't believe you can -- well, I don't believe it's advisable to determine a methodology that says one size fits all. I think you have to look at the circumstances and determine does it merit the normalization adjustment? Does it merit a disallowance or does it merit full reflection because the test year costs are representative of ongoing conditions?

We try to look at all of the information we can gather from the Company and make a judgment call based upon that available data as to whether a normalization is appropriate or not.

MR. HEMPLING: So is Ms. Nanbu misinterpreting the CA position as being a total principle objection to the notion of normalizing costs that might not incur in the test year, that would be a misunderstanding of the CA's position or your position?

MR. CARVER: Yes, I think it would be an overgeneralization.

MR. HEMPLING: All right. I might have

overgeneralized what she said, but when you cleared that up, you settled it anyway.

MR. CARVER: Yes, we did.

COMMISSIONER KONDO: Mr. Carver, does that mean that from the CA's perspective you do not expect there to be an upgrade needed in the next year or so of the system?

MR. CARVER: I am not aware of an upgrade that's needed in 2010. I do have to say that I don't, as I sit here today, recall all the information I looked at for the 2009 rate case test year that led me to conclude that no adjustment was necessary for the 2009 rate case test year.

COMMISSIONER KONDO: Because if you were convinced that there was an upgrade needed in the 2010 year, perhaps your position might be different on this in whether or not to normalize the expense?

MR. CARVER: It might have been different. I can't say it would have, but I would look at the information that was available and make a judgement call based upon that date.

COMMISSIONER KONDO: So when you looked to normalize expenses you looked -- or to include expenses that incurred outside of the test year, and when you normalized the expense, you're looking to the likelihood of either a cost being incurred by the Company during, for instance, the 2010 year; or, perhaps, even savings in costs in the 2010 test year -- I'm sorry, in the 2010 year?

MR. CARVER: It's certainly possible. I also look at whether the test year is aberrational for some reason, be it too high or too low. It may not be what's going to happen in 2010 is the ultimate target, but whether what we have in the test year makes sense, based upon other historical data we know or we have available, and whether there is significant variability from year to year; or, whether there's some -- whether there's some cycle to the incurrence of costs.

So if it's an upgrade that's going to happen once every three years and the upgrade hits only in the test year and the costs will be zero until the next upgrade, that might merit some amortization treatment, as, I believe, was the case in the 2007 rate case test year.

MR. HEMPLING: And the opposite is true also that if it's a regular upgrade but the year of the upgrade happens to be something other than the test year, you're not going to insist on a zero cost recovery?

MR. CARVER: Not necessarily. I think, again, we have to look at what the data in totality is telling us and whether or not what we would be trying to do is reach back to a year prior to the test year and allow recovery of some past costs. I think we would get in trouble with some retroactive ratemaking concerns, if that's what we were trying to do.

So we have to look at all of the information we have available and try to make a judgement call as to whether normalization is the appropriate way to go.

COMMISSIONER KONDO: And the distinction between this -- what we're talking about there and when we were talking about IRP, CSP costs which I understand the Consumer Advocate, the support normalization of is because those are -- you have a historical record and you're expecting the continuation of those similar costs in 2010; is that correct?

MR. CARVER: I believe that would be correct, yes.

MR. BROSCH: And, in that instance, I would add the Company's prefiled case reflected that normalization adjustment using a method that had been established in the '05 test year, I believe.

COMMISSIONER KONDO: I guess the reason why some of these questions from my perspective is because it's confusing to me as to when it's okay to normalize and when it's not. And the other example, and it's a small one that comes to mind, is I know they talk about consignment of inventory; and, the fact that right now the polls are there; yet, in the future, if this program continues or if it's successful, they don't have expense until they actually use the polls; yet, I understand their testimony is that they don't want to normalize that costs.

So, I guess, I'm struggling to understand when it's appropriate and when it's not, but I appreciate what you said so.

MR. BROSCH: Unfortunately, I don't have concise, compact formula that you can apply to all circumstances.

COMMISSIONER KONDO: Okay.

MR. BROSCH: That tends to be pretty fact-specific.

COMMISSIONER KONDO: Thank you.

MR. CARVER: And I might just add too that this is part of the tension Mr. Brosch mentioned earlier between normalization or not normalization allowing costs versus disallowing costs.

COMMISSIONER KONDO: Thank you.

MR. HEMPLING: But if there are -- sorry, to carry this one step further, I know it's break time, but if there are any principles that are common to ratemaking and apply here, they seem to be as follows.

One is that the Company should have an opportunity to recover its prudent costs and the arbitrariness of the 12-month calendar shouldn't become a bar to the recovery of reasonable costs, number one.

And, number two, one wants to avoid violating the integrity of the test year by approving only cost increases and not catching cost decreases. Those are the two principles that, as I understand it, are ironclad; and, then what you're trying to do is apply them in fact-specific situations.

MR. BROSCH: I would agree with all of that as general guiding principles; and, when we're done, the overall test of reasonableness is whether the Company has an overall reasonable opportunity to achieve the authorized return; and, unfortunately, it requires judgment every step of the way when you slog through the details of the individual issues, budgets, and adjustments.

CHAIRMAN CALIBOSO: Let's take our afternoon break. We're going to have to cut this one short; so, come back at 3:30 probably.

We're in recess.

(Whereupon, at 3:21 p.m., a recess was taken, and the proceedings resumed at 3:31 pm., this same day.)

CHAIRMAN CALIBOSO: Good afternoon.

We'll reconvene this hearing. We're still continuing with the Panel 3.

Mr. Hempling?

MR. HEMPLING: Good afternoon.

Which one of the witnesses is familiar with the amortization of the HR Suite?

MS. NANBU: I guess that's me.

MR. HEMPLING: And as I understand this, from your supplemental testimony and your direct testimony, the Commission in Docket 2006-0003 approved deferral of the software development costs associated with the HR Suite; is that right?

MS. NANBU: Yes.

MR. HEMPLING: And what is this suite?

MS. NANBU: The software program for our benefits and HR system. I think Julie can explain a little bit more about the software itself.

MS. PRICE: The HR Suite is a software component of software systems that is designed to improve the administration of benefit program for the Company, as well as compensation, administration. It includes a self-service HR component for employees, a learning management component, a performance management component and reports.

MR. HEMPLING: What's the total costs?

MS. PRICE: The total costs, as of -- the last update is 12.5 million, of which 8.2 million is HECO's portion.

MR. HEMPLING: And does that 12.5 and 8.2 include AFDUC?

MS. PRICE: Uh, yes.

MR. HEMPLING: And what is the amortization period that you're using for purposes of the proposed rates?

MS. NANBU: It's based on a 12-year amortization period, which was approved by the Commission in that docket.

MR. HEMPLING: Do you have any idea how long you expect to use that software?

MS. PRICE: Hopefully, for at least 12 years.

MR. HEMPLING: And is there an upgrade in the future that you expect?

MS. PRICE: Im sure there will be upgrades, but I'm not aware of any right now.

MR. HEMPLING: Okay. Can we talk about AMI R&D?

This will be referring to page 21 of the Exhibit 1 of the Settlement Agreement.

Am I right that it's page 21?

Up is Bruce Tamashiro and Leon Roose.

Are we ready for this today CA?

Am I right that it's at page 21?

MR. BROSCH: Mm-hmm.

MR. HEMPLING: Okay. So what the Exhibit 1, page 21, says is that there's 611,000 of AMI research development expense in the A&G account 930.2 comprising 488,000 for outside services and 123,000 for the tower gateway base station lease rental.

Now you've all settled at advertising the 488,000 over two years, correct, Mr. Carver?

MR. CARVER: Yes, that's correct.

MR. HEMPLING: And what was the basis for the two years?

MR. CARVER: Again, it's the interval between the current HECO rate case and the planned next following case under the decoupling proposal.

MR. HEMPLING: And is it Mr. --

MR. TAMASHIRO: Tamashiro.

MR. HEMPLING: -- Tamashiro, excuse me, what AMI R&D costs has the Company incurred in 2008 and 2009?

MR. TAMASHIRO: In 2008, the Company has incurred $453,000 of AMI R&D costs?

MR. HEMPLING: And 2009, what would the number be?

Do you know?

MR. TAMASHIRO: As of -- is it okay about -- I can say that we are on track to spend $611,000 of AMI R&D costs for the test year 2009.

MR. HEMPLING: On track, okay.

And do you have any thoughts as to 2010, 2011 for this category?

MR. TAMASHIRO: I don't know that budget, sorry.

MR. HEMPLING: Does the Company have no anticipation of what it will incur for R&D expenses during those two years?

MR. TAMASHIRO: As I mentioned before, R&D is an ongoing expense of the Company; and, as far as AMI is concerned, we'll continue to focus on research and development with respect to AMI and AMI-related technologies.

MR. HEMPLING: I'm sorry, for forgetting this, but is that your domain, the R&D expenditures, are you the man that keeps track of the dollars?

MR. TAMASHIRO: I'm the man who keeps track of the dollars.

MR. HEMPLING: Okay. So who's the man or woman who keeps track of the R&D decisions?

Okay. So what are you expectations concerning R&D spending for AMI in 2010 and 2011?

Do you have any expectations?

MR. ROOSE: Yes, at this time we do. I don't have the exact numbers in front of me right now, but we do have expected spending for R&D for AMI in 2010.

I believe it is a little lower than the 611,000 anticipated for '09, given that by 2010, and we anticipate the end of the position and also begin some implementation; so, you got the transition into the implementation and so forth as you move forward.

So while there is, I think, some decrease, I think it's relatively a nominal level. I don't have the exact numbers with me at this time.

MR. HEMPLING: We don't know what we're going to be R&D-ing until we get close to the time when we're going to be spending the money. It depends on what else other people discover and what the shape of the research program is. Right?

MR. ROOSE: That's correct. I mean, I think, as we move into 2010, for example, I know that we're going to be continuing the efforts on smart grid road mapping; so, there will be efforts in that costs in that category of expense. That will be part of the R&D efforts that we're actually going to be incurring expense initiatives toward that end as well.

MR. HEMPLING: Mr. Roose, is there like a charter document that you have in your department for the AMI effort?

You described this morning in, sort of, the terms that everybody uses when they want to get excited about AMI, but do you have an actual admission statement and a plan or are we just sort of every year spending on what seems most useful?

MR. ROOSE: Are you referring to specifically R&D dollars?

MR. HEMPLING: Yeah; and, well, I should step back.

In terms of AMI generally, does the Company have a vision of what things will look like when, quote, AMI, close quote, is in place; or, are we still feeling your way?

MR. ROOSE: No, I think we have a vision of what that will be essentially. We'll be fundamentally replacing every meter we have on the system with meters that have the ability to take meter reads remotely. Those meters will also have the ability to do interval reads; so, that we can just do programs like time-of-use. Those are fundamental aspects of the AMI program that we're proceeding forward with.

As I talked about also relative to small grid activities, you know, with an AMI system, essentially, you are also putting in fundamentally a communications infrastructure, again, out to every single customer that will really permeate our entire system; and, so that will enable other activities beyond just, you know, interval meter reads, for example.

I know there some of the things that were explored specifically in the smart grid road mapping initiative and to see how the AMI system that we deploy can best fit with the future with other functionalities.

MR. HEMPLING: Is the analysis of the relationship between costs and benefits for AMI within your domain or someone else's domain in the Company?

MR. ROOSE: We have the director of AMI division that works within my department and is the key person that has done the work historically on that as well as going forward.

MR. HEMPLING: At this point in time, has somebody done an analysis of costs versus benefits to know that this whole program is worth doing; or, is it at such an early stage that it's not possible to know either the costs or the benefits in quantitative terms?

MR. ROOSE: I think in the TC application we did put forward a cost benefit analysis for the overall AMI program. Again, with the work we're doing now in the R&D front, you know, again, looking at the smart grid efforts and the other initiatives, we anticipate revisiting, again, in the cost benefit analysis that was previously done and would be part of what we put forth to the Commission as we move the project initiative forward.

MR. HEMPLING: In having time-of-use rates in Hawaii its key purpose is a fundamental assumption of the AMI effort; is that right?

MR. ROOSE: Yes. Having time-of-use rates is ultimately an objective that was important to the customers of this State. Right now, we're in the process of moving forward with the ability to do that and AMI will help enable the ability to do that on a much more wide scale basis.

MR. HEMPLING: No, I just wanted to make sure I understand you.

One of the main reasons, one of the three or four reasons you gave for even having an AMI program is the ability to implement time-of-use rates.

MR. ROOSE: Correct.

MR. HEMPLING: Is time-and-use rates within your domain?

THE WITNESS: The actual implementation of the time-of-use programs would be in a different department.

MR. HEMPLING: But doing the research on the AMI infrastructure that would facilitate time-of-use rates is within your department?

MR. ROOSE: Correct, to the extent that that becomes a part of the infrastructure, we put forward with the

AMI and the AMI enables that. The technology portion of it would be part of our department, correct.

MR. HEMPLING: Have you had any connection with the folks who are developing time-of-use rates for this case?

MR. ROOSE: Myself, personally, to some degree, yes.

MR. HEMPLING: Do you have any opinion on the effectiveness of the time-of-use rates that exist now and are being proposed in this case?

MR. ROOSE: At this time, I don't have enough detail in that to express an opinion on that; but, I think the time-of-use rates, again, generally speaking, the Company is moving forward with are critical for the ability for customers to get control over the usage of their energy.

MR. HEMPLING: Right, we said that.

To what extent does the Company's thinking on time-of-use rates, which, as I understand, it occurs in another department, to what extent does that thinking affect the way you're doing your research and development with respect to AMI?

MR. ROOSE: I think with respect to certain functionalities, you know, clearly the AMI system would need to be effective at being able to do the interval readings, which is fundamental to be able to do effective time-of-use billing; so, you know, it's part and parcel from that perspective.

You know some of the work that staff in the AMI division is doing right now is testing to ensure that the AMI systems can, in fact, deliver what they need to deliver on in order to effectively do interval ratings.

MR. HEMPLING: Well, do decisions about the shape of the time-of-use rate program such as the number of tiers and the price distance between the tiers make any difference to you in terms of the R&D that you have to do in the AMI area?

MR. ROOSE: And I probably don't have enough of the details of the technical aspects of the AMI technology to really draw those distinctions. I think our director of AMI would have that, but with the reorg, I'm fairly new in terms of taking over the overall AMI effort.

MR. HEMPLING: Is the director of AMI here?

MR. ROOSE: No, he isn't.

MR. HEMPLING: Would it be possible for that person to come when we have the time-of-use rates discussions?

MR. ROOSE: Yeah, yes.

MR. HEMPLING: Okay, thank you, Mr. Roose.

MR. ROOSE: Thank you.

MR. HEMPLING: What is that person's name?

MR. ROOSE: Paul Fetherland.

MR. HEMPLING: Okay. Can we talk about health benefits, not with respect to AMI?

Hello, Ms. Price.

MS. PRICE: Hello.

MR. HEMPLING: So you've had an increase in medical plan costs from 2007 to 2009?

MS. PRICE: Yes.

MR. HEMPLING: And as I understand your HECO ST-13, pages 4 to 5, there's been an increase in that period of time 2007 to 2009 in the HMSA PPP program of 13.3 to 14.8 percent?

MS. PRICE: Yes.

MR. HEMPLING: And in the HMSA HPH plan a percent increase of 14.24 to 15.1?

MS. PRICE: Yes.

MR. HEMPLING: And Kaiser, an increase of about 2.7 percent?

MS. PRICE: Yes.

MR. HEMPLING: Now the increase in the number of employees is one reason for this increase?

MS. PRICE: Yes.

MR. HEMPLING: And what other factors?

MS. PRICE: There is an increase in actual claims. When the HMSA determines what the premium rate will be for a year, they look at a 12-month period of actual claims incurred, and they apply to that a trend adjustment and their administrative costs and compare that to what the current rate is to determine the increase.

MR. HEMPLING: And is that Company-specific, the --

MS. PRICE: The claims?

MR. HEMPLING: Yes, ma'am.

MS. PRICE: Yes, it is.

MR. HEMPLING: So do you have a feel with respect to these increases the relative weight in contribution as between the employee count and the claims' experience?

MS. PRICE: Oh, no, I don't.

MR. HEMPLING: Is it --

MS. PRICE: The employee count increased --

MR. HEMPLING: Mm-hmm.

MS. PRICE: -- from --

MR. HEMPLING: By what percentage?

MS. PRICE: -- 1530 that was in the 2007 settlement to 1618 which is what our estimate was for the test year.

MR. HEMPLING: So that's about 6 percent, right, roughly?

MS. PRICE: Yes.

MR. HEMPLING: About 6 percent.

So at least as large a contributor to the cost increases claims as distinct from the number of employees?

MS. PRICE: Yes.

MR. HEMPLING: The numbers that I just went over are what you're putting into the -- excuse me -- let me restate that.

Were the percentage increases that we just talked about, those were your predictions or those are the actual premium changes -- premiums?

MS. PRICE: Those are the actual change in the premiums.

MR. HEMPLING: And those are the numbers that are reflected in the --

MS. PRICE: In the settlement.

MR. HEMPLING: -- in the settlement?

MS. PRICE: Yes.

MR. HEMPLING: So is the Company doing anything with respect to these increase in claims?

MS. PRICE: Yes. What we have is we have a third-party admin -- a third-party consultant, AM consulting, who we retained to look at our medical plan premiums each year, and they negotiate with HMSA to bring those rates down as much as possible.

For 2009, our premium was later to increase by 22.1 percent, and they have in talking in discussions with HMSA, increased it to 16 percent, and that 22.1 percent, and that is primarily a function of negotiating with HMSA to look at a 12 -- a 24-month claims history versus 12 months, because the 12-month period included some large claims and, therefore, we tried to smooth out that. They tried to smooth that out by looking at a 24-month history.

MR. HEMPLING: I was also asking with respect to the claims behavior of employees.

Is the Company doing anything with respect to helping employees to stay healthy and reduce claims?

MS. PRICE: Yes, we are. We have not only a couple, but HMS and Kaiser, we have wellness programs that are designed to reduce medical expenses over the long term; and, these programs include flu shots, screening programs for cholesterol and hypertension and case management programs designed to help employees monitor cholesterol levels, hypertension, asthma, diabetes, and chronic illnesses.

In addition, we have a flex plan. And under the flex plan is basically a cafeteria plan whereby, the Company gives the employees an allotment called "flex credits," and they use those credits to purchase various benefits, medical, life insurance are put into spending accounts.

The flex plan helps control medical costs because it gives the employees an incentive to waive medical coverage, and by waiving the medical coverage, we save in the premiums as well as potential claims.

So for the test year, in 2009, we estimate that approximately 97 employees will waive medical coverage; and, if we apply an average rate of 6,500 per year in premium for those employees, we reduced our costs by approximately

578,000.

MR. HEMPLING: And do you have a feel for what portion of your total medical plan costs are attributable to retirees?

MS. PRICE: Oh, the costs that are in the test year are strictly for active employees. The retirees are covered under the post-retirement --

MR. HEMPLING: The --

MS. PRICE: -- expense.

MR. HEMPLING: Excuse me, post-retirement?

MS. PRICE: Expense.

MR. HEMPLING: Yes.

MS. PRICE: Yes.

MR. HEMPLING: Now the health and wellness programs that you just described --

MS. PRICE: Yes.

MR. HEMPLING: -- are those available to former employees?

MS. PRICE: Not right now. They're only available only to actives. However, the programs that are sponsored by the carrier, HMSA and Kaiser, are available to everybody, employees, and retirees.

MR. HEMPLING: Which programs are those again, please?

MS. PRICE: Okay. Those could be case management programs or screening programs; so, case management to monitor diabetes, hypertension, asthma, and screening programs to measure cholesterol levels or high blood pressure.

MR. HEMPLING: So is every aspect of the wellness programs that are presently available to employees also available to retirees or is there some difference?

MS. PRICE: The difference pretty much is our flu shot program which we only administer for active employees.

MR. HEMPLING: Other than the flu shot program, retirees have access to the same wellness benefits essentially as the current employees do?

MS. PRICE: Active employees.

MR. HEMPLING: Okay. How long is this health and wellness division set of programs been in existence?

MS. PRICE: I would say for at least ten years.

MR. HEMPLING: Okay. Travel expenses? It's travel training and overtime are the next three very quick topics.

MR. WILLIAMS: It really depends on what areas you have the questions because those flow across all these areas. Mr. Giovanni can respond to some of those.

MR. HEMPLING: I'll start with him.

Mr. Giovanni, have you undertaken cost containment measures with respect to travel expenses?

MR. GIOVANNI: Yes, we have.

MR. HEMPLING: Now you're going to be referring to which sector of the Company?

MR. GIOVANNI: Power supply process area.

MR. HEMPLING: Ms. Sekimura, do you have a general knowledge of this area too?

MS. SEKIMURA: I have general knowledge.

MR. HEMPLING: Well, are there Companywide policies with respect to travel costs?

MS. SEKIMURA: Yes, we have employed some guidelines, yes.

MR. HEMPLING: And you're in charge of those?

I don't mean you go out and whack people for noncompliance but.

MS. SEKIMURA: I'm in charge of implementing the programs, but there's another department that has come up with the designing of those.

MR. HEMPLING: With what?

Just finish the sentence before the -- I just didn't hear the rest of your sentence.

MS. SEKIMURA: I'm sorry. I'm in charge of administering it, but I did not come up with the overall design of that.

MR. HEMPLING: Okay. Does the Company have a program for reducing travel expenses at this time?

MS. SEKIMURA: Yes, yes.

MR. HEMPLING: And can you tell us anything about this program?

MS. SEKIMURA: Sure. In light of the economic slow down and the fact that revenues have not been able to cover our expenditures, we've undertaken a plan to take a look at our spending policies which do cover the travel expenditures. And one of the things we are looking at is how to reduce those expenditures in light of -- in light of our total plan, and what we've reduced that to is travel that is absolutely necessary to do such things as for training and things that we need for certification, et cetera.

MR. HEMPLING: Excuse me. So you're not reducing travel when it relates to training and certification; is that correct?

MS. SEKIMURA: That's correct.

MR. HEMPLING: That deems to be essential to the future of the Company's effectiveness?

MS. SEKIMURA: That's correct.

MR. HEMPLING: So what's an example of travel that you're cutting?

MS. SEKIMURA: An example of travel that we're cutting are travel programs that we don't necessarily need in the short-term; and, an example would be for understanding accounting standards, for example, we're employing other mechanisms to supplant that. An example would be we look at other ways like webcast training and things that we can get through the internet or affiliations that we belong to such as EDI.

MR. HEMPLING: Okay. And training, training expenses, is that also in your domain in terms of policies concerning the Company's training expenses?

COMMISSIONER KONDO: Mr. Hempling, could I ask a question on travel --

MR. HEMPLING: Yes.

COMMISSIONER KONDO: -- before you move on?

MR. HEMPLING: Yes, sir.

COMMISSIONER KONDO: Ms. Sekimura, I understand from one of your IR responses to the CIR 181 with the amount of travel expense that the Company anticipates saving in 2009 is 100 to 150,000; in 2010, $200,000; is that correct?

MS. SEKIMURA: That's correct.

COMMISSIONER KONDO: Is there an appropriate adjustment to attest to your expense?

MS. SEKIMURA: I would say that we're not going to be incurring those expenses that you just pointed out, 100 to 150,000 in 2009 and about 200,000 in 2010.

COMMISSIONER KONDO: So, I guess, my question is, What's the appropriate adjustment through the test year expense?

I mean, I've heard different comments about normalizing the expense about whether or not you take the high number in some instances.

Is there an appropriate adjustment from your standpoint as to on the travel expenses, going on travels.

MR. SEU: The appropriate adjustment would be in the range of about 100,000 to $150,000.

COMMISSIONER KONDO: And that's because it's the test year amount?

MS. SEKIMURA: That's correct.

COMMISSIONER KONDO: Thank you.

MR. HEMPLING: I was going to ask your whether there was a Companywide policy on training expenses, but I imagine your answer would be as general as the one on travel expenses that you're doing your best in cutting things that don't affect the Company's long-term prospects, period; is that right?

MS. SEKIMURA: That is correct.

MR. HEMPLING: And, Mr. Giovanni, are you making any decisions about reducing training that are going to be detrimental to the future of the Company?

MR. GIOVANNI: Not on a long-term basis.

MR. HEMPLING: What does that mean?

MR. GIOVANNI: Well, any training that we do, for example, in our operations divisions is dictated by the requirements to qualify people for the job that they have to perform.

MR. HEMPLING: And for those, there's no compromise on training?

MR. GIOVANNI: There is no economy in shortchanging that training whatsoever. In the short-term, we might be able to defer the specific type of training or a seminar for a certain maintenance technique or tool or new technology that might evolve; but, for the long-term benefit, sooner or later, we needed to have those training programs as part of our routine.

COMMISSIONER KONDO: What is long-term and what is short-term in your mind?

MR. GIOVANNI: In my mind, short-term is on the order of six months. Long-term is we like to look ahead on a, you know, year-over-year basis.

COMMISSIONER KONDO: So you're saying that the amount of training savings that is articulated in response to PUC IR 182 is only for a six-month period?

MR. GIOVANNI: I have to refresh myself with that, but I was speaking specifically for our supply in my response. I believe that that response is a Companywide response.

COMMISSIONER KONDO: How much training expense is there for power supply?

MR. GIOVANNI: Well, the training expense for power supply is fairly extensive. It's on the order of millions of dollars for a year. When you take into account the way that we count the time that the employees were experiencing the training, their training time is often cleared to a clearing account, so we account that as a training expense.

In terms of the outside services expense and support of training that might be a separate account; and, then we utilize an extensive amount of on-the-job training where we use are own qualified employees to travel other -- to train other employees; and, when they're performing in that service, they're time is also counted to a clearing charge for training.

COMMISSIONER KONDO: But the training you're talking about for power supply is that different from the training that's talked about here, the Company's total budgeted O&M training for 2009 was $250,000?

MR. GIOVANNI: It's different, yes. Some of the training that we do is in incorporated in that number, a very small part of it.

And that would be, for example, we sent one of our engineers to a seminar on some new technology and he trained in measurement techniques and the like; but, within the department, if we were to have training exercises where we have on-the-job training, safety training, but of that like, is not included in those.

COMMISSIONER KONDO: Okay. So you're saying that, from your perspective, for power supply, the short-term may be six months you can go without some of the training but after that the training becomes necessary; is that right?

MR. GIOVANNI: From my perspective, it is.

COMMISSIONER KONDO: Now who is covered under this O&M training that's budgeted that's in response to IR 182?

What departments are covered within this budgeted training amount if it's not yours or not all yours?

MS. SEKIMURA: I can answer that.

In addition to the power supply, we have some training in the energy delivery as well as in the administrative areas of the Company.

COMMISSIONER KONDO: Okay. Now is that training as critical as what Mr. Giovanni is talking about with respect to power supply?

MS. SEKIMURA: For the energy delivery, I would need to defer to Mr. Young to answer that question.

MR. YOUNG: There's a -- Mr. Kondo or Commissioner Kondo, there's several aspects to training.

One is profession training that relates to the training that the engineers participate in and deal with issues such as power flow, short-circuit, technical training of that matter; whereas, higher level training, you know, are typically associated with people with college degrees; and, then there's also the operational training that are done with the bargaining unit, mostly and primarily the bargaining unit employees.

I think I don't recall that IR, so I have to take a look at it; but, some portion of that expense is the travel and training expenses associated, I think, with some of that technical training that is done for the merit employees, so I -- but I have to take a look at that. But on the -- and the reason I say that, Commissioner Kondo, is because on the order of -- with respect to the filing an employee training, it's an ongoing process, and there are established training -- for example, in my department, System Operations, we have training for the dispatchers when new employees are hired or as they progress to a higher level position in the dispatching function.

A tremendous amount of that is done through OJT and through our technical trainings; and, so we'll handle the training with a lot of in-house labor and the charges for that would be -- you know, charged to the clearing accounts for the training; and, so that's the reason why I say that.

COMMISSIONER KONDO: Okay. Now thank you.

The reason why I'm asking the question is because in the IR it says, The Company estimates that this policy may reduce training expenses by approximately 50,000 per year in 2009 and 2010.

So, I guess, my question really is, Is the Company intending to reduce its test year expenses by that amount, the savings that you folks are experiencing because of the different policies that you have implemented; specifically, on this issue relating to training?

MR. YOUNG: I would say that on an ongoing basis that we want to try and keep our employees up to speed on -- but, as far as the reduction is concerned, these are costs containment measures that were taken in light of the economic conditions and what's happening around us right now.

COMMISSIONER KONDO: Is it reflected in the rate case is my question?

MR. YOUNG: I'm not sure. I have to defer to --

COMMISSIONER KONDO: And I understand that it can't be long-term, but my other understanding is that your projected next rate case is in the year -- in the test year 2011, which is not that long-term.

Mr. Brosch, do you have an answer to that?

MR. BROSCH: Well, I have information. I'm not sure how much it helps --

COMMISSIONER KONDO: Sure.

MR. BROSCH: -- but let me share it anyway.

At CA-101 Schedule C-8 I sponsored an adjustment to the Company's proposed budget of training expenses for outside services in Mr. Giovanni's area of production or power supply process area.

And I see that the amount of that adjustment, the

217,000 is identified in the response to Part C of IR 182, but the starting point that I had, as indicated on Schedule C-8, is a proposed Company test year outside services on training of 403,000, not any of the other numbers shown in this response.

So I think you may need more information to put a bow around all the numbers and figure out what the total O&M training numbers are because the information I have was that in production in O&M alone there was once 403,000 before my adjustment.

COMMISSIONER KONDO: Do you remember the date that you did this exhibit?

MR. BROSCH: I could tell you that we filed on April 17th, and the source information for the adjustment I have identified as CA IR 305, Attachment 2. I suspect that that IR was looking at prefiled information about production training costs. I don't have any information about more broadly defined Company training.

COMMISSIONER KONDO: And the 2009 guideline that you were talking about, Ms. Sekimura, when were those implemented by the Company?

MS. SEKIMURA: They were implemented by the Company at the end of July 2009.

COMMISSIONER KONDO: So after Mr. Brosch's --

MS. SEKIMURA: Yes.

COMMISSIONER KONDO: -- testimony.

Thank you.

Thank you, Mr. Hempling.

MR. HEMPLING: Overtime expenses, was there a Companywide policy on this or is it sector by sector?

MS. SEKIMURA: In response to PUC IR 181, we included the 2009 guidelines for overtime, and that stated to practice judiciously use of overtime for outages, significantly reduce overtime at even at the expense of customer service but absolutely not at the expense of employee or public safety.

With respect to what specific departments have done in those areas, I would need to defer to Mr. Giovanni for the part supply area and Mr. Young for the energy delivery areas, which are the areas that predominantly incur overtime in our Company.

MR. HEMPLING: Because I got the impression that we're going to be doing more overtime because it's difficult to hire sufficient people in some of these areas.

So is there -- first of all, before we get to your policy, Mr. Giovanni, is there a conflict between, a, the difficulty in hiring people sufficient to get the work done; and, b, reducing overtime?

MR. GIOVANNI: The first has been a longstanding problem to fill the vacancies and, therefore, in order to get the job done, we've been -- it's been necessary to work overtime with existing staff and to hire contract labor.

In the short-term, to meet these guidelines for reduced overtime, we have implemented measures that had resulted in less work being done, so there is a call in short-term.

MR. HEMPLING: The less work being done meaning work being putting off to the future or quality decline?

I guess in one context you said that somebody is going to wait longer on the phone to get a customer service rep. Correct?

MR. GIOVANNI: In power supply, there's no drop in the quality of the work that we do. We do defer our work.

MR. HEMPLING: An example would be?

MR. GIOVANNI: An example would be that we have a backlog of maintenance activities as defined by work orders, and we would prioritize those in terms of emergency, high priority, medium priority, and the like. Then we have a period where we are deferring work because we are restricting overtime, you know, we will do fewer -- we will complete fewer work orders of a lower priority caliber.

MR. HEMPLING: So deferring work to avoid overtime does actually save money, but deferring work just to meet a lower budget doesn't save anybody any money, does, it?

MR. GIOVANNI: It depends on the period of time you're looking at it. In the long run, I don't think it saves money; but, on the short term, it can save money.

MR. HEMPLING: So how much work is getting deferred not, for purposes of avoiding overtime, but just for purposes of meeting budgets right now and just putting the costs off in the future and not helping anybody?

How much of this is occurring?

MR. GIOVANNI: Well, in response to the general guidelines that Ms. Sekimura described, in our area, we define that it would be necessary to work overtime for four different reasons. The first of which is what we call anything -- any work that's required for safety of our personnel or safety in the workplace; so, regardless, of what the work is or when it occurs, we will work overtime to address that safety issue.

Similarly, for compliance purposes, whether it be environmental compliance or safety compliance issues, we will work the overtime as necessary to do that.

The third area has to do what we term to be mission-critical activities; and, this usually stems from the reliability of our service.

So on a planned basis, we will schedule maintenance work and outages our equipment to ensure that we have the available on-line generating resources to meet demand.

Now if in the short-term, due to weather conditions, like we had earlier in the month of October, which our peak loads went much higher than we expected, when we had a forced outage of a unit or two, under those circumstances, we will accelerate the maintenance that would otherwise be planned.

So during those periods, where we were scheduled to work 40 or 50 hours a week due to the high weather conditions, hot weather conditions, or due to force outages that occurred concurrently on an unexpected basis, then we would go to a two-shift operation on our planned activities and work the overtime to do that.

So we were making and have been making those decisions on a day-to-day, week-to-week basis.

MR. HEMPLING: Those four categories of reasons for overtime sound like reasons that would exist regardless of budget tightness because they're central to the purposes of the Company.

MR. GIOVANNI: In general, that's true. In power supply, we also -- we have a backlog of work. There's no shortage of work to be done. So we tend to work and schedule our work at a level that allows us not only to meet the demands that I just described to you in those categories, but also to do the preventive maintenance and to do the backup or the backlog of maintenance that has been accumulated over time.

MR. HEMPLING: To the extent the Company's overtime costs are attributable to vacancies -- well, let me ask you first.

To what extent in your area are overtime costs attributable to vacancies such that hiring would reduce the overtime?

MR. GIOVANNI: On a historical basis, looking back over the last few years, I can only speak in generalities. If we did not have any vacancies, we would still tend to work in an overtime level in our maintenance division. And now in maintenance is the area that expands and contracts with time.

The operations division, that's defined. We work 24/7 and, as necessary. So we see much less volatility in overtime numbers in operations; but, even in operations to accommodate leaves, training, and turnover in the workforce, we'll see overtime in the order of what we call 15 percent.

What that means is on the order of about 300 hours per year of overtime per employee, a rough number.

MR. HEMPLING: And that's not attributable to insufficient labor in the Company. That's just attributable to the normal comings and goings of people --

MR. GIOVANNI: That's the comings and goings of the retirement and the training and the movement in the operations division. In the maintenance area, historically, we plan to about the same level, which is about 15 to 20 percent; but, due to the vacancies, we've actually experienced in recent years, levels that size are twice that.

MR. HEMPLING: So if I can understand this then, some overtime costs the Company is incurring because of insufficient number of employees?

MR. GIOVANNI: Correct.

MR. HEMPLING: And is there any budget cutting in the area of recruitment such that there's a conflict between the Company's overtime policies and the Company's recruitment activities?

MR. GIOVANNI: No, there's no conflict. In fact, to the contrary, we just launched this month a brand-new apprenticeship program in our area to deal with our most chronic vacancy problem, which is vacancy of control technicians.

So we were just launching -- in this period of the costs containment, we were launching a new program for apprenticeship. It's a three-year program; so, no.

And as far as all the other vacancies and the maintenance in the operating areas, we're continuing to pursue replacements at our normal pace, which is very aggressive.

MR. HEMPLING: And, Ms. Sekimura, elsewhere in the Company, you're not hearing or experiencing any pushback to any budget cuts associated with recruitment where recruitment would reduce overtime costs?

MS. SEKIMURA: I'm not aware of anything at the moment.

MR. HEMPLING: Would that come to you as the person who presides over overtime production Companywide?

Would you hear about it?

MS. SEKIMURA: Possibly, through a staff meeting.

MR. HEMPLING: Leases?

COMMISSIONER KONDO: May I talk about the OT first?

MR. HEMPLING: Oh, excuse me. Yes, sir.

COMMISSIONER KONDO: Ms. Sekimura, could you provide us some guidance as to how much savings the Company anticipates for the year 2009 and then 2010 based upon the policy to reduce OT, overtime.

MS. SEKIMURA: As we noted in the response to PPI or 184, it is very difficult to quantify the expected savings. As you heard from Mr. Giovanni, it's really tough to segment the portion of overtime; so, I would say it's very difficult to quantify that amount.

COMMISSIONER KONDO: Is it more than a million dollars?

MS. SEKIMURA: I don't believe it would be that much.

COMMISSIONER KONDO: More than half a million?

MS. SEKIMURA: I don't believe it would be that big.

COMMISSIONER KONDO: Do you have a ball-park figure?

MS. SEKIMURA: I'm sorry, I don't have a figure at the moment.

COMMISSIONER KONDO: But assuming that it's half a million dollars, wouldn't it be appropriate to reduce the test year expense by half a million dollars?

MS. SEKIMURA: I would say that we would need to take a look at what's driving that amount.

COMMISSIONER KONDO: Well, assuming that you expect that OT reduction to continue through 2010, not only for the remainder of 2009, but also 2010, wouldn't it be appropriate to reduce your labor expense by that amount, given that you expect to file a test year rate case in 2011?

MS. SEKIMURA: I would say it would have to depend on the work that's involved and the circumstances in each of the areas that's behind that work plan.

COMMISSIONER KONDO: Well, if you already -- well, I guess, maybe I don't understand that response, because if you know that you're going to cut so much overtime and still maintain the units and maintain the Company, keep it alive basically, I guess I don't understand your response.

I mean, it seems, to me, that you can make a decision or perhaps the Company has made some decision about what amounts will be allowed and what won't be and just like any test year expense there's some guesstimation and projection required, the Company hasn't done that, is that what you're saying?

MS. SEKIMURA: What I'm saying is that it's difficulty to quantify that savings. This is a guideline that came about, but it's very difficult to quantify what that savings would amount to.

COMMISSIONER KONDO: Wouldn't it be appropriate for -- well, wouldn't it be inappropriate for the Commission not to recognize any savings?

Mr. Giovanni?

MS. SEKIMURA: Could you could repeat what you --

COMMISSIONER KONDO: Sure.

Would it be inappropriate if the Commission did not recognize any savings?

MS. SEKIMURA: No.

COMMISSIONER KONDO: It would be okay if the Commission didn't recognize the savings that you anticipated, is that what you're saying?

I mean, my question was very poor.

But, I guess, what I'm asking is, Would it be reasonable for the Commission to establish rates without recognizing the savings that you anticipate in 2009 and 2010?

MS. SEKIMURA: I believe it would be reasonable for the Commission to acknowledge some savings. The difficulty that I have is quantifying what that dollar amount is.

COMMISSIONER KONDO: Which would make it more difficult for the Commission to quantify that dollar amount. I mean, you're telling us, yes.

I want to ask the Consumer Advocate's position on that.

Is there a problem if we don't account for any savings that the Company has based upon the policies that the Company has implemented where we expect there to be savings, both in the test year as well as in 2010?

MR. BROSCH: At the very high policy level, I would suggest that you might want to address the issue of whether normal ongoing circumstances should capture fairly extraordinary production measures or not.

I can say that we looked not at overtime costs in isolation as an expense to be analyzed; but, instead, looked to overtime hours in the context of the justification for the staffing changes the Company has proposed.

We looked at labor costs in terms of total hours, not just overtime hours and seclusion because, obviously, there's interaction between staff in overtime levels that we've talked about. There's also interaction between contract labor, supplemental labor, to use Mr. Giovanni's term, and overtime.

So if you push in one place, sometimes the costs come back in another place. Instead of looking at discrete cost elements in isolation, we ask questions about all of that; but, then you'll see in the IR responses a lot of information about departmental straight time hours and overtime hours alike.

But when it got down to the issue of what's representative of normal ongoing costs, one of the adjustments made in the production area was at Schedule C-7 where we looked at this notion of what work can be deferred and what is a normal ongoing level of discretionary work; and, that adjustment looked at station maintenance projects.

These projects that Mr. Giovanni said are prioritized and noted that historically there have been lean years and less lean years financially; and, over an extended period of time, the Company has been able to do more or less of that work in a given year depending on financial circumstances.

And that adjustment, mechanically, simply allows a three-year average of historical spending from 2006 to 2008 in place of a Company's budget for the test year, which was a downward adjustment of about 1.4 million that the Company accepted in settlement.

COMMISSIONER KONDO: It seems, to me, though, that the testimony that you did and the negotiations that you did with the Company to reach that settlement number, that was prior to the Company implementing this new policy to further reduce costs.

Should not this new policy to further reduce costs, whether it be OT, whether it be travel, whether it be training, shouldn't that be considered by the Commission?

Would it be irresponsible for the Commission not to consider it?

MR. BROSCH: I think it should be considered, but that really goes to the first part of my question on what basis are you setting rates as a policy matter.

Do you want to set expenses that are allowed in the revenue requirement at the batting down the hatches, control all expenses to a minimum level and say that's normally where we want to be going forward or not?

COMMISSIONER KONDO: Well, assuming, that the Company expects those expense levels to be maintained through the year of 2010, wouldn't it be appropriate for the Commission to use those numbers rather than numbers that are larger, knowing that the Company already is committed to reducing those expenses?

MR. BROSCH: It could be. But, again, it's a one level that you look at, just overtime in isolation, and say we've identified potential cost-cuts here and this is the adjustment.

COMMISSIONER KONDO: No, I understand that there's, perhaps, movement in other areas if you cut overtime, but considering if you look at the big picture, shouldn't the Commission be looking at the cost-saving measures that the Company has implemented, understanding that there may be adjustments in other areas because of the cost-saving measures?

MR. BROSCH: Certainly, if you believe that the cost-cutting measures are sustainable, then, yes, they should be considered.

COMMISSIONER KONDO: And sustainable, are you talking between the projected test year period or sustainable beyond that test year period?

MR. BROSCH: I'm talking --

COMMISSIONER KONDO: I'm sorry, not the test year period, but between the projected period between rate cases.

MR. BROSCH: Well, I mean, that is the question.

We, as I said before, when we look at normalizing expenses, we look at the budget, we look at historical levels, like I described in this adjustment, we look at current best expectations of the future and reason and judgement is applied given the facts that you find.

COMMISSIONER KONDO: Well, I guess, my question was, When you use the word "sustainable," are you talking about between rate cases, are you looking beyond the next rate case?

MR. BROSCH: I meant operationally sustainable after the test year, given that these rates are going to be in effect for a period of time.

COMMISSIONER KONDO: But assuming that it's sustainable between rate cases, is that what you're taking about?

Are you looking beyond the next rate case, assuming they can maintain this level of spending --

MR. BROSCH: No.

COMMISSIONER KONDO: -- until the year --

MR. BROSCH: I'm sorry.

COMMISSIONER KONDO: -- 2011?

Is that what you're looking at or are you looking beyond that?

MR. BROSCH: Sustainable until the next test year is what I'm talking about --

COMMISSIONER KONDO: Yeah, okay.

MR. BROSCH: -- yes. We would look at these issues in every test year based on the best current information available then.

COMMISSIONER KONDO: Okay, thank you.

MR. GIOVANNI: Mr. Kondo, I need to clarify --

COMMISSIONER KONDO: Sure.

MR. GIOVANNI: -- please, if I may.

This batting down the hatches approach that we now have in effect to sustain the costs in particular to the overtime is not sustainable and does not extend beyond 2009.

So our current plan is, unless and until differently, is to retore it to the levels of work performed, and the Company's overtime, as necessary, started at the end of 2009.

Moreover, if we have any unforeseen problems that occur between now and the end of the year, we're going to respond to them for the reliability of the system. We're also prepared to do that. But there is no intent or understanding, that I know of, that we are going to sustain this lower level batting down the hatchet beyond December of this year.

COMMISSIONER KONDO: When you say it's not "sustainable" --

MR. GIOVANNI: It's not sustainable.

COMMISSIONER KONDO: -- are you talking about your department or are you talking about Companywide?

MR. GIOVANNI: I'm talking about power supply.

COMMISSIONER KONDO: Your department. Right?

MR. GIOVANNI: My department, yes.

COMMISSIONER KONDO: And we talked earlier about the fact that there's a very small amount -- I'm sorry, strike that, because that was the training expense that we are --

MR. GIOVANNI: Right.

COMMISSIONER KONDO: -- talking about?

MR. GIOVANNI: In overtime, I'm the majority in that.

COMMISSIONER KONDO: But if we back out overtime, Ms. Sekimura, and I looked at the policy guidelines, the 2009 guidelines, do you have a guestimate as to the savings, the cost savings that the Company expects on those guidelines, no travel, or reduced travel, reduced training, no new office furniture, looking at the landscape issues?

Is there a guesstimate as to what the Company expects to save because of those cost-saving measures that were implemented by that guideline?

MS. SEKIMURA: I don't have a precise amount, but I do want to remind everyone that the reason that we had employed these cost-reduction measures was because of the economic downturn and we didn't receive all the revenues to cover the expenditures per our plan.

So there are other circumstances in other areas of the Company that had us going into this direction, its costs reduction that was implemented at the end of July.

COMMISSIONER KONDO: Well, I think Mr. Alm, said it best at the beginning, we're sharing the pain.

But --

MS. SEKIMURA: That's correct.

COMMISSIONER KONDO: -- do you have a guestimate as to what that total amount of savings would be in 2009 and 2010, excluding the overtime?

MS. SEKIMURA: I don't have an estimate.

MR. WILLIAMS: Actually, that's why Mr. Alm said he would cover it in closing, but we've identified certain items that we can talk to. We just hadn't a chance to fully pull this together. I'm sorry.

COMMISSIONER KONDO: I guess the reason why I hesitate -- thank you for that explanation but, Mr. Williams, perhaps there will be another opportunity to have one of your witnesses put it into evidence rather than you just --

MR. WILLIAMS: I agree.

COMMISSIONER KONDO: -- talking at closing.

MR. WILLIAMS: And I was going to rely on numbers that in the evidence. Thanks to the Commission's IR responses.

COMMISSIONER KONDO: Well, it's much narrower than the 2009 guidelines. You're aware of that because the 2009 guidelines talk about moving expense, landscaping expense, things of that nature, where the IRs talk about OT, travel, and training.

MR. WILLIAMS: Right, there are some other items that were identified in the IR responses as well as there's some rent savings. I think you were going to ask Mr. Tamashiro about, for example, the Ellipse 6 expense has actually been deferred.

COMMISSIONER KONDO: Okay. No, I guess, my question is what about for some of these other items that are identified in the guidelines.

Are you going to have a witness testify about it, assuming there's some savings associated with it, because I understand you can summarize, but I don't think that -- you want the Company's witnesses?

MR. WILLIAMS: Yes. The overtime is not sustainable. I think that's the one that did not have a number associated with it, and we were not going to propose a reduction for it.

COMMISSIONER KONDO: Okay. But I hear Ms. Sekimura saying that she can't provide a number of the other times listed in the guidelines minus the OT.

Is that what I heard her say?

MS. SEKIMURA: Yes. The numbers that we can provide in terms of savings were supplied in the responses to PUC IR 181 and 182.

COMMISSIONER KONDO: So you don't any savings from deferring landscaping?

You don't expect any savings from no purchase of new furniture?

I mean, those are things that are listed in the guidelines, so I'm trying to get an understanding as to why they're included if they're cost-containment measures, but you don't not expect any real savings.

MS. SEKIMURA: There are measures that we took and there are numbers associated with those initiatives but I don't have them right now.

COMMISSIONER KONDO: I'm struggling to understand how we can get it on the record and maybe you can help me understand it.

MR. WILLIAMS: Thank you. If you ask for another IR, we will respond to that, but I don't have anything beyond what Ms. Sekimura had said.

COMMISSIONER KONDO: Okay, thank you.

MR. HEMPLING: Leases? Anybody?

Are you the lease man, Mr. Tamashiro?

MR. TAMASHIRO: Rent leases, yes.

MR. HEMPLING: Sir?

MR. TAMASHIRO: Yes, rental leases, yeah.

MR. HEMPLING: Yeah.

MR. TAMASHIRO: Okay.

MR. HEMPLING: And so the question here is concerning the Company's response to PUC IR 126. You gave us an update on four new leases.

Are you familiar with that information?

MR. TAMASHIRO: That's correct.

MR. HEMPLING: And it looks like because of some glitches between the Company and the landlord or changes in plans or people not moving out or people moving in maybe, there's a difference between the amount of dollars in the test year rate case and the amount of dollars you're actually likely to incur this year. Correct?

MR. TAMASHIRO: That's correct.

MR. HEMPLING: So, for example, the total lease costs in the 2009 test year rate case is 288,000 according to this IR provided among these four leases --

MR. TAMASHIRO: Yes.

MR. HEMPLING: -- is that correct?

THE WITNESS: $280,000 for those four leases --

COMMISSIONER KONDO: Okay. So --

MR. TAMASHIRO: -- that's correct.

MR. HEMPLING: -- what are you exactly expecting to pay for new leases in the test year in light of these various changes?

Do you know?

MR. TAMASHIRO: We expect the test year estimate to decrease approximately $224,000.

MR. HEMPLING: That's a real savings.

MR. TAMASHIRO: And it's primarily related to the removal of three leases.

MR. HEMPLING: The removal of three out of the four. Right?

MR. TAMASHIRO: Yes. And the addition of a small lease that we had entered into, is the Suite 1050 reference on page 8 of the IR response 126.

MR. HEMPLING: Okay. And Mr. Brosch or Mr. Carter, I don't want to be perceived as nickeling and dime-ing on this. I realize some things go up and some things go down; but, you are comfortable with the notion of keeping the 288,000 in the revenue requirement notwithstanding it's almost virtual disappearance of the costs, because I assume there's other things that moved in the other direction?

MR. CARVER: One of the areas I spend a fair amount of time in both this rate case and the last rate case was looking at individual Company leases, changes in leases, new lease terms and conditions.

If the Company has now determined that it is not going to go forward with certain lease commitments that we were told they were going to proceed with earlier in the year, prior to our filing, then it would seem to make sense that those lease costs should be removed.

I would direct the Commission's attention to Schedule C-17, as part of our direct filing -- part of the Exhibit CA 101, where we very specifically tried to reflect the changes in lease terms the Company had presented in response to discovery during the dependency of this case.

MR. HEMPLING: You know, I was trying to find a short answer.

Are you saying that the Commission should lock off whatever it is, almost all this 288,000, because we know now that the leases aren't going to incur -- that they're not going to incur fee costs?

Is that your recommendation?

MR. CARVER: Yes, if those are not ongoing lease costs, then, I think, it would be reasonable for that to be reflected. However, I would also say that in reaching the Settlement Agreement in the current case, the Consumer Advocate and the Company discuss any number of issues and compromised on individual issues in order to reach a negotiated resolution.

MR. HEMPLING: Well, that's what I'm trying to get at. I don't know that there's a completely consistent answer that you're giving me. On the one hand, you're saying there was a settlement and the settlement must have assumed that there was going to be some variation between the dollars that go into the settlement of the real world, right, that always happens --

MR. CARVER: Whenever you're --

MR. HEMPLING: -- correct?

MR. CARVER: -- dealing with a forecast for a test year, yes, that will always happen.

MR. HEMPLING: All right. Well, isn't it pretty inconsistent for you to advise the Commission that it should pick out one particular item that happens to be different and stick it to the Company and not invite the Company to tell us about all the cost increases that vary from what was anticipated?

I mean, how was your position consistent with your settling the case?

MR. CARVER: Certainly. And that's why I added that --

MR. HEMPLING: Certainly, which one of multiple questions were you answering certainly to?

MR. CARVER: Certainly, it is somewhat inconsistent, and that's why I provided a compound answer.

Yes, I think it's fair for the Commission to take that information into consideration, and it will have to reach a judgement whether or not to reflect those lease cost savings.

I can tell you had I had this information available at the time we made our filing in April of 2009, I would have reflected those savings in our prefile position.

MR. HEMPLING: Right. But the same thing goes for the multiple cost increases that vary from the settlement numbers. Right?

MR. CARVER: Exactly, yes.

MR. HEMPLING: Well, isn't the whole notion of regulatory lag that the Company can find a way to make some savings relative to what the revenue requirement is that they get to keep the dollars?

Is that one reason why we don't put all costs on trackers but we use rate cases?

MR. CARVER: That would be one reason. There are other reasons for not putting all costs on trackers.

MR. HEMPLING: I'm sure.

Well, what your advice to the Commission?

Let this one go or really make the Company get back these dollars?

What's your recommendation?

MR. CARVER: Well, my recommendation is I'm here supporting the Settlement Agreement we reached with the Company.

MR. HEMPLING: Right. But what's your recommendation, not as a gun hired by the CA, but as witness before this Commission advising it?

What's your recommendation?

MR. CARVER: I would recommend that the Commission treat this item just as it would any overtime savings or training savings in this case.

MR. HEMPLING: Which is?

MR. CARVER: I don't know what the Commission might do with those items.

MR. HEMPLING: Are you going out of your way not to answer my question; or, do you feel like you're not heating the Consumer Advocate's -- not heating your obligation, the Consumer Advocate?

Can you give an answer as an expert and not as a witness for a party as to what the Commission should do in this situation?

MR. CARVER: I don't believe I can make a strong recommendation one way or the other for the Commission, given where we are in this case.

The fact that we have a Settlement Agreement, the fact that we have interim rates into effect, I cannot make a strong recommendation that the Commission reflect those savings at this point in time. If the Commission believes that the evidence supports reflecting those lease cost savings, then I would encourage you to do so, but I cannot make that recommendation at this point.

MR. HEMPLING: But it would be inconsistent for the Commission to do that just for this one item and not do that for every possible item in the case, too, right?

This is only a 250,000-dollar item.

There's plenty of things like this at that level. Right?

MR. CARVER: Yes, there are. And there are some items I'm certain where with the Company feels that it has -- it's actually incurring greater costs that it included in the forecast test year that it assembled in 2008.

MR. HEMPLING: So you recommend against the Commission singling out this one item and adjusting it because of new information; is that right?

MR. CARVER: I think you get on a slippery slope whenever you attempt to identify individual items to treat in a different manner.

MR. HEMPLING: Well, what do you mean by "slippery slope"?

A slippery slope toward what?

MR. CARVER: Where do you stop?

How far do you pull on that string?

How many issues, you know, do you try to encompass in trying to reach a balance forecast test year in which to set rates that will remain into effect until the next rate case?

MR. HEMPLING: Are you at all concerned that the Company might have withheld information about these leases until you signed the settlement?

Are you comfortable that this is something that happens from time to time, that events change after a settlement is reached?

MR. CARVER: I have no reason to believe that this information was withheld. I believe that very shortly before the filing of the CA's direct testimony, the Company did provide a second revision to its forecast lease costs that information I relied upon in putting our direct filing together. I have no reason to believe, as I'm sitting here today, that they had additional information available to these items that they did not tell me that.

MR. HEMPLING: Are you comfortable with that statement, sir?

MR. TAMASHIRO: That's correct. At that time, during the settlement negotiations, we were not aware of this.

MR. HEMPLING: Okay.

MR. TAMASHIRO: Can I also make one more point, Mr. Hempling?

In this IR response on page 7, we talk about we will be entering -- the Company will be entering into another lease.

MR. HEMPLING: Which location?

MR. TAMASHIRO: IR 26, page 7 on the top.

MR. HEMPLING: Right.

MR. TAMASHIRO: And this is Water House --

MR. HEMPLING: Yep.

MR. TAMASHIRO: -- Building with Suites 110, 111, and 113.

These are office space, office surround space that the Company plans on entering into a lease for. That cost will probably be incurred in 2010 and that amount is still about $115,000.

MR. HEMPLING: Okay. So you're adding to your IR response in terms of what you now know in terms of information?

MR. TAMASHIRO: No, that is in this response, but I'm just giving you the dollar amounts.

MR. HEMPLING: I'm sorry. Yeah, I don't have that page with the dollar amounts with me at the moment.

The dollar amounts aren't there?

MR. TAMASHIRO: Yeah, the dollar amounts are not on --

MR. HEMPLING: Okay.

MR. TAMASHIRO: -- this document.

MR. HEMPLING: Okay. Excuse me a minute, please.

COMMISSIONER KONDO: Mr. Brosch, I going to follow up while Mr. Hempling looks at his notes.

Perhaps, I misunderstood what Mr. Carver said or you said earlier. Mr. Carver talked about the slippery slope.

I understood you to talk to me earlier about the prudence in looking at actual numbers, if they're available, as a doublecheck on the test year numbers.

Did I misunderstand you or perhaps I misunderstood what Mr. Carver said or could you make it consistent?

MR. BROSCH: Let me try.

COMMISSIONER KONDO: Thank you.

MR. BROSCH: When you start picking and choosing, it is problematic to introduce a bias into that process, because whenever you choose to look at all the variables that go under the revenue requirement, you use what you know that day, and a week later, a month later, a year later, all the numbers are different.

So you can pick any one in isolation that you prefer to talk about depending on whether you want to see costs going up or costs going down and you get the result a year after.

So I say to you anything you look at is information. At the end of day, you're going to have to balance it with all the other information you've seen; and, if you're concerned about leases going down, you might look at an uncollectible expense that's much higher and say, you know, maybe there was rough justice in the settlement and maybe not.

All of this is newer, better information, more current information that you're going to have to synthesize and write your order to reflect however you think it's best reflected; and, I don't know how else to say that.

COMMISSIONER KONDO: The question I have is, What does the Consumer Advocate do with the new information, given that they settled on it?

Does the Consumer Advocate just ignore that information?

The new information that's come up subsequent to the settlement, how do you handle that?

MR. BROSCH: Well, we either decide we were done when we settled or we don't, and we start piling through all the data again and updating the whole process, and we've set about that task.

COMMISSIONER KONDO: So you've done the form, you've decided upon the settlement that you were done?

MR. BROSCH: We thought when we settled that we were done but-for the two issues scheduled to be regulated, that is correct.

COMMISSIONER KONDO: Not to beat the dead horse here, Ms. Sekimura, but I know that the Company has also implemented a policy relating to vehicle painting. Correct?

MS. SEKIMURA: That's correct.

COMMISSIONER KONDO: And could you explain what that policy is?

MS. SEKIMURA: I'm going to defer that question to Mr. Young who responded to that IR.

COMMISSIONER KONDO: Okay.

MR. YOUNG: Mr. Chairman, Commissioner Kondo, as far as the vehicle painting policy, what we're doing now is when we purchased the vehicles before in the past we used to purchase the vehicles painted in our Company colors of blue, yellow, and white.

So what we're doing now, in order to save costs, is we're purchasing the vehicles and paint it white, and we are simply applying logos to the vehicles so that they can be identified as Company vehicles. That is the policy now.

COMMISSIONER KONDO: Thank you.

I see that the Company's response to PUC IR 183 talked about the expected savings in 2009 being about $50,000?

MR. YOUNG: That's correct.

COMMISSIONER KONDO: And respective capital savings in 2010 being $90,000; is that correct?

MR. YOUNG: That is correct, yes, in the IR response, yes.

COMMISSIONER KONDO: Is there an amount that has been reflected in the rate in terms of a reduction in expenses?

MR. YOUNG: Because you said --

MR. HEMPLING: What amount would that be if there is?

MR. YOUNG: I don't know if there has been a reflection in the capital category for these savings, but these are the savings that we realize for the vehicles that we purchased, the capital savings that we've realized in the remaining months of 2009 and for the period 2010.

COMMISSIONER KONDO: Well, will the Company be making an appropriate reduction in the expense test year; and, if so, in what amount?

MR. YOUNG: I would imagine that for the amounts of the savings that would be --

COMMISSIONER KONDO: Mr. Young, I don't want to get you in trouble.

MR. YOUNG: Yes.

COMMISSIONER KONDO: So the first question is, Are you going to make -- are you going to make an adjustment to the test year expenses; and, if you don't know, that's okay?

MR. YOUNG: Okay. I don't know that we're going to make an adjustment to the test year.

COMMISSIONER KONDO: Do you know who could answer that question?

MR. YOUNG: I would think that the capital witness would probably be the next person since these are capital costs.

MR. WILLIAMS: Yeah, it's a finance.

MR. YOUNG: It's a finance.

MR. WILLIAMS: Commissioner Kondo, that would be Lorie Nagata.

COMMISSIONER KONDO: Okay. I know that in actually Mr. Alm's supplemental testimony he talked about reductions in certain service contracts that the Company has.

Are you familiar with that, Ms. Sekimura?

MS. SEKIMURA: I'm familiar with Mr. Alm's testimony.

COMMISSIONER KONDO: Is he the better person to ask him these questions as to the dollar amount that the Company has achieved in terms of savings or is that you?

MS. SEKIMURA: I don't have the specific dollar amount associated with those savings.

COMMISSIONER KONDO: Has there been some savings?

MS. SEKIMURA: I believe there are some savings. I don't -- I've not been able to quantify it around the Company.

COMMISSIONER KONDO: Who is the better person to ask?

Who would know the answer to whether or not there's been some savings from some of the service contracts that the Company apparently took a step to renegotiate?

MS. SEKIMURA: I would ask Mr. Giovanni in the part supply area and --

COMMISSIONER KONDO: Okay. Like, for instance, I know one of the contracts that Mr. Alm talks about is the wireless provider contract.

Is that Mr. Giovanni that would be able to talk about that?

MR. GIOVANNI: No, it's not.

COMMISSIONER KONDO: Okay. Who would be able to talk about that?

Ms. Nanbu, what is your familiarity with the contract?

MS. NANBU: I've just talked to the people in the ITS department who is working on trying to get a contract with our wireless carriers and revise negotiated rates. I do not -- the last I've heard was they're still in negotiations. I'm trying to get a contract.

COMMISSIONER KONDO: What about contracts with office vendors, office supply vendors, are you familiar with those negotiations?

MS. NANBU: That's being done by the purchasing division. My understanding is they're still working on trying to get a contract offer, just generic-type office supplies; but, my understanding, at this point, is the contract has not been negotiated yet. It hasn't been completed. Revised contract prices have not been negotiated.

COMMISSIONER KONDO: Thank you.

Mr. Giovanni, maybe this is you, the Transformers. I understand that the vendor has discounted the transformers; is that correct?

MR. GIOVANNI: That's Mr. Young.

COMMISSIONER KONDO: Sorry.

MR. YOUNG: Commissioner Kondo, we have an alliance with some vendors for transformers, and through this alliance, we work with them to see what pricing measures, what incentives of savings we can get while working with the vendors.

And so I'm not sure if there have been any savings passed on, but I know in terms of the alliance, we have received benefits through the alliance of some savings in years past; but, specifically, for the test year, I don't know if there has been any savings negotiated with them so far.

COMMISSIONER KONDO: Given that we've talked today about looking beyond the test year and into the 2010 year, do you expect to have savings from the alliance in the 2010 year?

MR. YOUNG: I can't specifically say yes or no whether or not there is because we have a large power transformer line and a small transformer line, so there's multiple facets to this. I'm not sure which transformers you're relating to, but to the extent that, I think, they're going to have meeting, and they'll discuss that, and then we'll find out whether or not any of these things will be passed on to us.

In some years, there is no price change. In other years, depending on whether or not there are some design savings of some other factors that can be used to realize those savings, then that would be passed on, if there are any.

COMMISSIONER KONDO: I apologize because, perhaps, we're talking about two different things.

If I read from Mr. Alm's testimony it says, Further savings come from ABD, Inc., which has offered price decreases for distribution transformers to be shipped to Hawaiian

Electric in the third quarter of 2009.

Are you familiar with that?

MR. YOUNG: Sorry, I'm not familiar with that.

COMMISSIONER KONDO: Do you know who would be familiar --

MR. YOUNG: It would be my area. And what I'm familiar with is that in the recent alliance meeting there were some savings that could be passed on for capital purchases for these power transformers for future projects, if it's referring to the power -- distribution power 10 NBA transformers, if it's related to that, then there were some savings they were passing on to us, but that relates to capital purchases of that transformer equipment, and that's my familiarity with the ABD alliance that we have in place for those 10 NBA distribution transformers.

COMMISSIONER KONDO: That's why I'm trying to digest what you said but --

MR. YOUNG: Yes.

COMMISSIONER KONDO: -- are you basically telling me that decrease has been passed on to the Company through ABD in the third quarter of 2009?

MR. YOUNG: Well, I'm not sure what the specific decrease is.

COMMISSIONER KONDO: You mean the specific dollar amount?

MR. YOUNG: Yes, that's correct.

COMMISSIONER KONDO: But you're aware that there has been a savings that has passed on, is that what you're saying?

MR. YOUNG: Yes, that's my recollection.

COMMISSIONER KONDO: Who would know the amount of the savings?

MR. YOUNG: We would have to find that from either the engineering or purchasing people.

COMMISSIONER KONDO: Is this a savings you expect to continue through 2010?

MR. YOUNG: That's a difficult question to answer. If the factor such as the commodity pricing and manufacturing costs and other things that go into the manufacturing of the transformer changes; so, sometimes these, other than commodity prices, there are other Company costs that are passed on, the overheads, the benefit, things like that, transporting costs, other factors that get put into the price of the transformer; so, it's a difficult question for me to answer, Mr. Kondo.

COMMISSIONER KONDO: Okay, thank you.

Maybe this one is Mr. Giovanni.

In Mr. Alm's testimony he talks about Black & Beach, proposing volume base discounts of up to 20 percent.

Are you aware of that?

MR. GIOVANNI: I am.

COMMISSIONER KONDO: Could you talk about that a little bit?

MR. GIOVANNI: We were -- through our engineering department and power supply, we had negotiated what we call a -- we requested a consideration from Black & Beach for a volume discount on engineering hours that are used for the cumulative projects that they would do for us in any one time.

I'm not particularly aware of the details except that I do believe it has a limited term. I'm not sure if it does or how far it might extend into 2010.

COMMISSIONER KONDO: Who would be more familiar with the discussion than yourself?

MR. YOUNG: Dr. Munger, who's the manager of the power supply engineering department.

COMMISSIONER KONDO: Is he a scheduled witness?

MR. WILLIAMS: He is a scheduled witness on the capital projects panel.

COMMISSIONER KONDO: Do you have any understanding, Mr. Giovanni as to the dollar value of the 20 percent discount?

MR. GIOVANNI: No, I don't have a specific knowledge of that, but Dr. Munger knows --

COMMISSIONER KONDO: All right. Thank you.

MR. GIOVANNI: -- or should or will.

COMMISSIONER KONDO: All right. Thank you.

CHAIRMAN CALIBOSO: And, I think, we're all done with this panel.

Are there any other questions from the Commission or Staff; if not, the parties can take a few minutes.

I wanted to at least ask if any of the parties wanted to ask questions of each other and cross-examine each other?

MR. WILLIAMS: Mr. Chairman, we do not have questions.

CHAIRMAN CALIBOSO: Thank you.

The Consumer Advocate.

MR. ITOMURA: The Consumer Advocate has no questions.

CHAIRMAN CALIBOSO: Thank you.

MR. MCCORMICK: No questions from the Department of Defense.

CHAIRMAN CALIBOSO: All right.

MR. MCCORMICK: However, not being an expert witness and being an attorney, I have no problems in making a recommendation to the Commission; and, that is any decision normally should be based on the most recent information. There's much that was not known at the time that the agreement was signed.

However, the reason we do not think that it's appropriate to abandon that agreement is because, as was mentioned, many factors will continue to change.

The other option is that you go over and you basically start this whole rate proceeding all over as a new rate proceeding by evaluating every little factor.

And so our position is that we encourage the Commission to use those significant items that are the most recent information, but read it in light of the fact that the agreement was achieved as a step we believe in the right direction, that no party got everything they wanted, but it's a basis for the future referrals in the future cooperation of the parties as we work through these issues in future rate hearings.

MR. HEMPLING: Thank you.

COMMISSIONER KONDO: Could I ask a question about that?

I find that answer to be a little inconsistent. It seems to me you're saying look at the most recent information, but, as I understand from Mr. Brosch and Mr. Carver, maybe you touched something here, it affects something someplace else, that you have an agreement.

MR. MCCORMICK: Right.

COMMISSIONER KONDO: Right. So how do suggest to the Commission --

MR. MCCORMICK: What I'm saying is if the Commission were to find something to be so significant that you feel that having not known that at the time we signed our agreement made it in legal terms, a bilateral mistake, you'd be thinking you'd throw out the agreement.

I'm just trying to say the parties realize that there's important information that, perhaps, we didn't know at the time. We do not think in our position that it's significant enough to throw out the agreement. We think that there are other considerations, like you say, where they balance out, where overall they achieved the purposes we're looking for.

The Commission may disagree and think something is more significance but we do not. That's what I'm I saying.

COMMISSIONER KONDO: All right. Thank you.

CHAIRMAN CALIBOSO: All right. So I understand the parties don't want to ask questions of each other, so that should be it for this panel.

We will recess until tomorrow morning at 9 a.m.

We are in recess.

Before I let y'all go, I know it's a little uncomfortable. The air conditioning I checked is working and it's on. I think we're just overloading it. And Ms. Alaquin had already asked for Friday Aloha attire; so, why don't -- if it's okay with all of you, why don't we make coat and ties optional for the rest of the week.

MR. MCCORMICK: Thanks. We have already done so.

MR. WILLIAMS: Thank you very much.

CHAIRMAN CALIBOSO: All right.

(Whereupon, at 5 p.m., the hearing was adjourned and is to be resumed on Tuesday, October 27, 2009, at 9 a.m.)

CERTIFICATE

This is to certify that the attached proceedings before the Public Utilities Commission of the State of Hawaii In the Matter of the Application of Hawaiian Electric Company, Inc. For Approval of Rate Increases and Revised Rate Schedules and Rules, at 465 South King Street, Honolulu, Hawai'i, commencing, on Monday, October 26, 2009, was held according to the record, and that this is the original, complete, and true and accurate transcript that has been compared to the reporting or recording, accomplished at the hearing, that the exhibit files have been checked for completeness and no exhibits received in evidence or in the rejected exhibit files are missing.

Tristan-Joseph, CSR NO. 469, RPR NO. 24906

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